NEW ISSUE - BOOK-ENTRY-ONLY

Rating: Moody's: "AAA"
(AMBAC Insured)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, interest due with respect to the Certificates is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, interest due with respect to the Certificates is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, interest due with respect to the Certificates may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations. See "Tax Matters" herein.

Stanislaus County

$15,340,000
COUNTY OF STANISLAUS
Certificates of Participation
(2004 Capital Improvement Projects)
Series 2004A

$27,455,000
COUNTY OF STANISLAUS
Certificates of Participation
(2004 Capital Improvement Projects)
Series 2004B

Dated: Date of Delivery

Due: September 1, as shown on the inside cover

The County of Stanislaus Certificates of Participation (2004 Capital Improvement Projects) Series 2004A (the "Series 2004A Certificates") are being executed and delivered pursuant to a Trust Agreement, dated as of April 1, 2004 (the "Series 2004A Trust Agreement") by and among the County of Stanislaus (the "County"), the Stanislaus County Capital Improvements Financing Authority (the "Authority") and BNY Western Trust Company, as trustee (the "Trustee"). The County of Stanislaus Certificates of Participation (2004 Capital Improvement Projects) Series 2004B (the "Series 2004B Certificates" and, together with the Series 2004A Certificates, the "Certificates" and, separately, each a "Series") are being executed and delivered pursuant to a Trust Agreement, dated as of April 1, 2004 (the "Series 2004B Trust Agreement" and, together with the Series 2004A Trust Agreement, the "Trust Agreements"), by and among the County, the Authority and the Trustee. The Certificates are being executed and delivered to finance certain portions of the Project (as defined herein), fund separate reserve funds for each Series of the Certificates, pay capitalized interest through September 1, 2006 on each Series of Certificates and pay the costs of execution and delivery for the Certificates. See "Plan of Finance" and "The Project and the Property" herein.

The Series 2004A Certificates represent undivided proportionate interests in certain lease payments (the "Series 2004A Lease Payments") to be paid under a Lease/Purchase Agreement under which the County will lease the Series 2004A Property (as defined herein) from the Authority, dated as of April 1, 2004 (the "Series 2004A Lease Agreement"). The Series 2004B Certificates represent undivided proportionate interests in certain lease payments (the "Series 2004B Lease Payments" and, together with the Series 2004A Payments, the "Lease Payments") to be paid under a Lease/Purchase Agreement under which the County will lease the Series 2004B Property (as defined herein) from the Authority, dated as of April 1, 2004 (the "Series 2004B Lease and, together with the Series 2004A Lease Agreement, the "Lease Agreements"). See "The Project and the Property" herein. **Each Series of the Certificates is separately secured by its related Lease Payments and under its related Trust Agreement and Lease Agreement. The Owners of one Series of Certificates will have no claim on the revenues or funds securing the other Series of Certificates or on other amounts held under the Trust Agreement for the other Series.**

The Certificates will be executed and delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive Certificates representing their ownership interests in the Certificates purchased. The Certificates will be executed and delivered in the principal amount of $5,000 and any integral multiple thereof. Interest represented by the Certificates is payable semiannually on March 1 and September 1 of each year, commencing on September 1, 2004. Principal and interest payments (and prepayment price) due with respect to the Certificates are payable directly to DTC by BNY Western Trust Company, as Trustee. Upon receipt of payments of principal and interest (and prepayment price), DTC will, in turn, distribute such payments to the beneficial owners of the Certificates.

The Certificates are subject to extraordinary, optional and mandatory sinking account prepayment prior to maturity, as described herein. See "The Certificates-Prepayment" herein.

The County covenants in the Lease Agreements that it will take such action as may be necessary to include all Lease Payments and Additional Payments (as defined herein) in its annual budget, and to make the necessary appropriations for such Lease Payments and Additional Payments. See "Security and Sources of Payment for the Certificates- Lease Payments" herein. The County's obligation to pay Lease Payments is subject to abatement in the event of damage or destruction to, or condemnation of or title defects to, the Property or a portion thereof. See "Security and Sources of Payment for the Certificates- Abatement" herein.

THE OBLIGATION OF THE COUNTY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE COUNTY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Payment of principal of and interest on each Series of Certificates when due will be insured by an insurance policy for each Series of Certificates (collectively, the "Insurance Policy") to be issued concurrently with the delivery of the Certificates by Ambac Assurance Corporation (the "Insurer"). See "The Insurance Policy and the Insurer" herein and Appendix E – "Form of Insurance Policy" attached hereto.

Ambac

The following firm serves as financial advisor to the County.

KNN
Kelling, Northcross & Nobriga
A DIVISION OF
ZIONS FIRST NATIONAL BANK

This cover page contains information for quick reference only. It is not a summary of this issue. Potential purchasers must read the entire Official Statement to obtain information essential to making an informed investment decision.

A maturity schedule for the Certificates is located inside.

The Certificates will be offered when, as and if executed and delivered, and received by the Underwriter, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, and certain other conditions. Certain legal matters will be passed upon for the County by its disclosure counsel, Hawkins Delafield & Wood LLP, Los Angeles, California and for the County and the Authority by County Counsel. It is anticipated that the Certificates will be available in book-entry form for delivery to DTC in New York, New York, on or about April 6, 2004.

UBS Financial Services Inc.

Dated: March 26, 2004

$15,340,000
COUNTY OF STANISLAUS
Certificates of Participation
(2004 Capital Improvement Projects)
Series 2004A

Maturity Schedule

$10,625,000 Serial Certificates

Maturity (September 1)	Principal Amount	Interest Rate	Yield/ Price	CUSIP†	Maturity (September 1)	Principal Amount	Interest Rate	Yield/ Price	CUSIP†
2006	$580,000	1.625%	1.27%	854450GB3	2014	$700,000	3.500%	3.40%C	854450GK3
2007	590,000	2.125	1.55	854450GC1	2015	720,000	3.600	100.00	854450GL1
2008	595,000	2.125	1.95	854450GD9	2016	750,000	3.700	100.00	854450GM9
2009	610,000	2.250	100.00	854450GE7	2017	775,000	3.800	100.00	854450GN7
2010	620,000	2.625	2.53	854450GF4	--	--	--	--	--
2011	640,000	3.000	2.73	854450GG2	2020	870,000	4.100	100.00	854450GQ0
2012	655,000	3.000	100.00	854450GH0	2021	905,000	4.125	4.15	854450GR8
2013	675,000	3.250	3.15	854450GJ6	2022	940,000	4.200	4.30	854450GS6

$1,635,000 4.000% Term Certificate due September 1, 2019: Price 100.000% CUSIP†: 854450GP2
$3,080,000 4.375% Term Certificate due September 1, 2025: Price 100.000% CUSIP†: 854450GT4

C- Priced to call on September 1, 2012 @101%

$27,455,000
COUNTY OF STANISLAUS
Certificates of Participation
(2004 Capital Improvement Projects)
Series 2004B

Maturity Schedule

$19,025,000 Serial Certificates

Maturity (September 1)	Principal Amount	Interest Rate	Yield/ Price	CUSIP†	Maturity (September 1)	Principal Amount	Interest Rate	Yield/ Price	CUSIP†
2006	$1,040,000	1.625%	1.27%	854450GU1	2014	$1,245,000	3.500%	3.40%C	854450HC0
2007	1,055,000	2.125	1.55	854450GV9	2015	1,295,000	3.600	100.00	854450HD8
2008	1,070,000	2.125	1.95	854450GW7	2016	1,340,000	3.700	100.00	854450HE6
2009	1,090,000	2.250	100.00	854450GX5	2017	1,390,000	3.800	100.00	854450HF3
2010	1,115,000	2.625	2.53	854450GY3	--	--	--	--	--
2011	1,140,000	3.000	2.73	854450GZ0	2020	1,555,000	4.100	100.00	854450HH9
2012	1,175,000	3.000	100.00	854450HA4	2021	1,620,000	4.125	4.15	854450HJ5
2013	1,205,000	3.250	3.15	854450HB2	2022	1,690,000	4.200	4.30	854450HK2

$2,925,000 4.000% Term Certificate due September 1, 2019: Price 100.000% CUSIP†: 854450HG1
$5,505,000 4.375% Term Certificate due September 1, 2025: Price 100.000% CUSIP†: 854450HL0

C- Priced to call on September 1, 2012 @101%

COUNTY OF STANISLAUS, STATE OF CALIFORNIA

BOARD OF SUPERVISORS

Paul W. Caruso, Chairman (District Five)
Pat Paul, Vice Chairman (District One)
Thomas W. Mayfield (District Two)
Jeff Grover (District Three)
Ray Simon (District Four)

COUNTY OFFICIALS

Patricia Hill-Thomas, Interim Chief Executive Officer
Tom Watson, Treasurer-Tax Collector
Larry D. Haugh, Auditor-Controller
Michael H. Krausnick, County Counsel

STANISLAUS COUNTY CAPITAL IMPROVEMENTS FINANCING AUTHORITY

GOVERNING BOARD

Paul W. Caruso
Pat Paul
Thomas W. Mayfield
Jeff Grover
Ray Simon

SPECIAL COUNSEL

Stradling Yocca Carlson & Rauth,
a Professional Corporation
Newport Beach, California

DISCLOSURE COUNSEL

Hawkins Delafield & Wood LLP
Los Angeles, California

FINANCIAL ADVISOR

Kelling, Northcross & Nobriga,
A Division of Zion's First National Bank
Oakland, California

TRUSTEE

BNY Western Trust Company
San Francisco, California

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

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

The information set forth herein has been provided by the County and other sources that are believed by the County to be reliable. The information and expressions 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 County or the Authority since the date hereof. This Official Statement is submitted with respect to the sale of the Certificates referred to herein and may not be reproduced or used, in whole or in part, for any other purpose, unless authorized in writing by the County. All summaries of the documents and laws are made subject to the provisions thereof and do not purport to be complete statements of any or all such provisions. Preparation of this Official Statement and its distribution have been duly authorized and approved by the County and the Authority.

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

In connection with the offering of the Certificates, the Underwriter may over-allot or effect transactions that stabilize or maintain the market price of the Certificates 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 Certificates to certain dealers, institutional investors and others at prices lower than the public offering prices stated on the cover page hereof and such public offering prices may be changed from time to time by the Underwriter.

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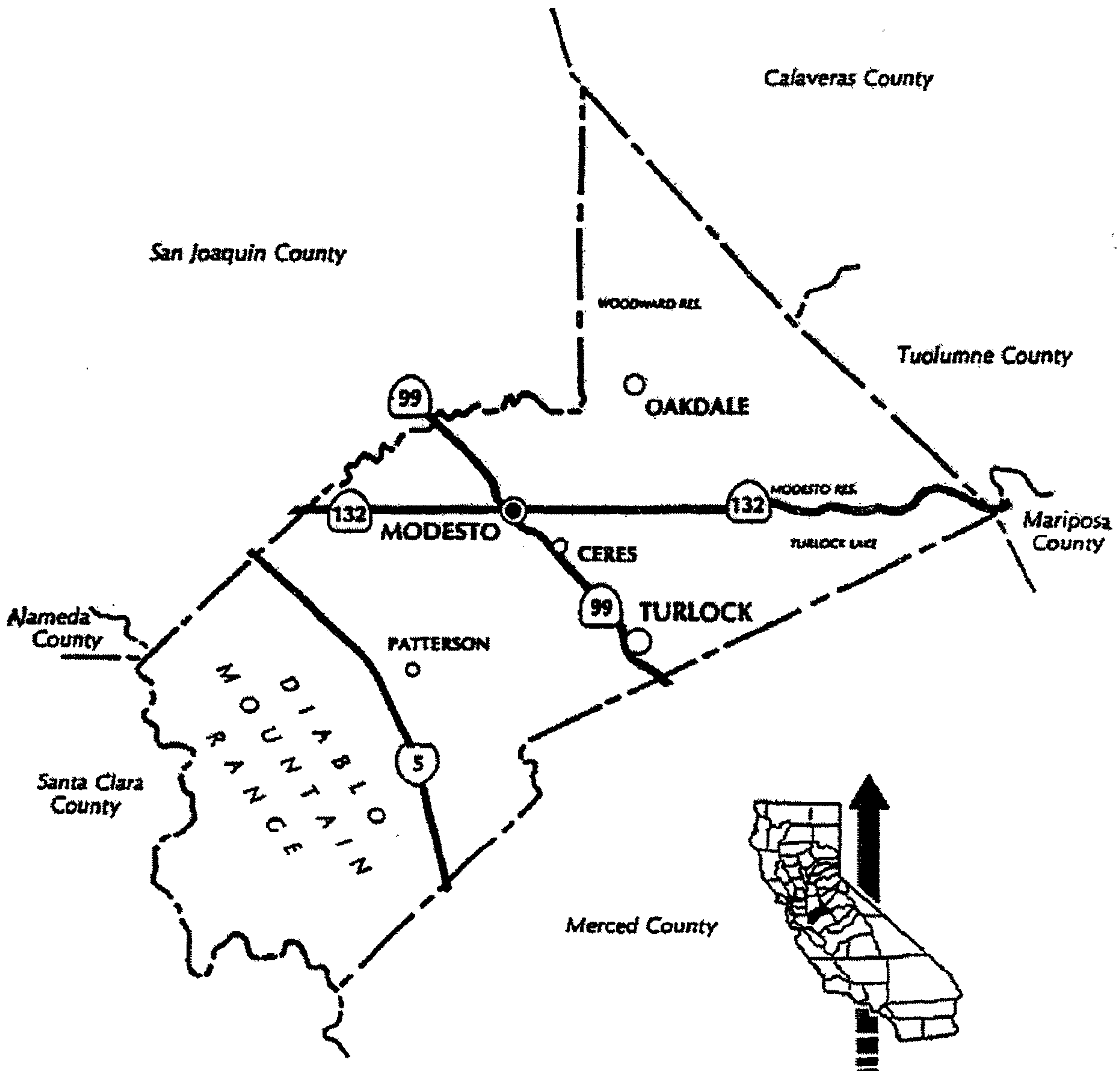
STANISLAUS COUNTY



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$15,340,000 COUNTY OF STANISLAUS Certificates of Participation (2004 Capital Improvement Projects) Series 2004A	$27,455,000 COUNTY OF STANISLAUS Certificates of Participation (2004 Capital Improvement Projects) Series 2004B

INTRODUCTION

This introduction contains only a brief summary of certain of the terms of the Certificates being offered, and a brief description of the Official Statement. All statements contained in this introduction are qualified in their entirety by reference to the entire Official Statement. References to, and summaries of, provisions of the Constitution and laws of the State of California (the "State") and any documents referred to herein do not purport to be complete and such references are qualified in their entirety by reference to the complete provisions. Capitalized terms used in this Official Statement and not defined elsewhere herein have the meanings given such terms in Appendix C – "Summary of Principal Legal Documents." This Official Statement speaks only as of its date, and the information contained herein is subject to change.

General

This Official Statement, including the cover and the Appendices attached hereto (the "Official Statement"), provides certain information concerning the execution and delivery of the County of Stanislaus Certificates of Participation (2004 Capital Improvement Projects) Series 2004A (the "Series 2004A Certificates") in the aggregate principal amount of $15,340,000 and the County of Stanislaus Certificates of Participation (2004 Capital Improvement Projects) Series 2004 B (the "Series 2004B Certificates) in the aggregate principal amount of $27,455,000. The Series 2004A Certificates and the Series 2004B Certificates are collectively referred to as the "Certificates" and separately as a "Series." The Series 2004A Certificates are being executed and delivered to (i) finance a portion of the costs of the acquisition, construction and installation of the Series 2004A Project (as defined herein), (ii) fund a reserve fund for the Series 2004A Certificates, (iii) pay capitalized interest on the Series 2004A Certificates through September 1, 2006 and (iv) pay the costs of execution and delivery for the Series 2004A Certificates. The Series 2004B Certificates are being executed and delivered to (i) finance a portion of the costs of the acquisition, construction and installation of the Series 2004B Project (as defined herein), (ii) fund a reserve fund for the Series 2004B Certificates, (iii) pay capitalized interest on the Series 2004B Certificates through September 1, 2006 and (iv) pay the costs of execution and delivery for the Series 2004B Certificates. See "Plan of Finance" and "The Project and the Property" herein.

The Series 2004A Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of April 1, 2004 (the "Series 2004A Trust Agreement") by and among the County of Stanislaus (the "County"), the Stanislaus County Capital Improvements Financing Authority (the "Authority"), and BNY Western Trust Company, as trustee (the "Trustee"). The Series 2004B Certificates will be executed and delivered pursuant to a Trust Agreement, dated as of April 1, 2004 (the "Series 2004B Trust Agreement") by and among the County, the Authority and the Trustee (the "Series 2004B Trust Agreement" and, together with the Series 2004A Trust Agreement, the "Trust Agreements"). The County will lease the Series 2004A Property (as defined herein) to the Authority pursuant to a Site Lease, dated as of April 1, 2004 (the "Series 2004A Site Lease") and the County will lease the Series 2004B Property (as defined herein) to the Authority pursuant to a Site Lease, dated as of April 1, 2004 (the "Series 2004B Site Lease" and, together with the Series 2004A Site Lease, the "Site Leases"). See "The Project and the Property" herein.

The Series 2004A Certificates represent undivided proportionate interests in certain lease payments (the "Series 2004A Lease Payments") to be paid under a Lease/Purchase Agreement under which the County will lease the Series 2004A Property from the Authority, dated as of April 1, 2004 (the "Series 2004A Lease Agreement"). The Series 2004B Certificates represent undivided proportionate interests in certain lease payments (the "Series 2004B Lease Payments") to be paid under a Lease/Purchase Agreement under which the County will lease the Series 2004B Property from the Authority, dated as of April 1, 2004 (the "Series 2004B Lease Agreement" and, together with the Series 2004A Lease Agreement, the "Lease Agreements").

See "Security and Sources of Payment for the Certificates – Lease Payments" herein.

Security and Source of Payment for the Certificates

Each Series of the Certificates is separately issued and secured by its related Lease Payments and under its related Trust Agreement and Lease Agreement. The Owners of one Series of Certificates will have no claim on the revenues or funds securing the other Series of Certificates or on other amounts held under the Trust Agreement for the other Series. For purposes of this Official Statement, "Lease Agreement" and "Trust Agreement" refer to the respective "Lease Agreements" and "Trust Agreements" entered into by the County and "Project" refers to the respective Projects of each Lease Agreement, unless specifically stated to the contrary. Singular references to accounts refer to the respective accounts established for each Trust Agreement, as appropriate.

Under the Lease Agreements, in consideration for the use and occupancy of the Property, the County is to make certain payments designated as Lease Payments and certain other payments designated as Additional Payments, in the amounts, at the times and in the manner set forth in the Lease Agreements.

Pursuant to an Assignment Agreement, dated as of April 1, 2004, between the Trustee and the Authority (the "Series 2004A Assignment Agreement"), the Authority will assign to the Trustee, for the benefit of the Owners of the Series 2004A Certificates, all of its right, title and interest in and to the Series 2004A Site Lease and the Series 2004A Lease Agreement (other than its rights to indemnification and payment or reimbursement of its costs or expenses thereunder), including the right to receive Series 2004A Lease Payments from the County under the Series 2004A Lease Agreement. Pursuant to the Series 2004A Trust Agreement, the Trustee is to distribute Series 2004A Lease Payments received from the County as principal and interest represented by the Series 2004A Certificates.

Pursuant to an Assignment Agreement, dated as of April 1, 2004, between the Trustee and the Authority (the "Series 2004B Assignment Agreement" and, together with the Series 2004A Assignment Agreement, the "Assignment Agreements"), the Authority will assign to the Trustee, for the benefit of the Owners of the Series 2004B Certificates, all of its right, title and interest in and to the Series 2004B Site Lease and the Series 2004B Lease Agreement (other than its rights to indemnification and payment or reimbursement of its costs or expenses thereunder), including the right to receive Series 2004B Lease Payments from the County under the Series 20004B Lease Agreement. Pursuant to the Series 2004B Trust Agreement, the Trustee is to distribute Series 2004B Lease Payments received from the County as principal and interest represented by the Series 2004B Certificates.

The County covenants in the Lease Agreements that it will take such action as may be necessary to include all Lease Payments and Additional Payments in its annual budget, and to make the necessary appropriations for such Lease Payments and Additional Payments. See "Security and Sources of Payment for the Certificates – Lease Payments." The County's obligation to pay Lease Payments related to a Series of Certificates is subject to abatement in the event of damage, destruction or loss such that there is a substantial interference with the County's right to the use or occupancy of the Property related to such

Series, except to the extent that moneys are available to pay the Lease Payments related to such Series in any of the funds and accounts established under the Trust Agreement for such Series. See "Security and Sources of Payment for the Certificates – Abatement."

Pursuant to each Trust Agreement, a Reserve Fund will be funded from the proceeds of the sale of the related Series of Certificates in the amount of the Reserve Requirement for such Series. Amounts in the Reserve Fund for a Series are available only to pay principal of and interest with respect to the Certificates for such Series and are not pledged to or available to pay any amounts due with respect to the other Series of Certificates. See "Security and Sources of Payment for the Certificates – Reserve Fund."

THE OBLIGATION OF THE COUNTY TO PAY LEASE PAYMENTS AND ADDITIONAL PAYMENTS UNDER THE LEASE AGREEMENTS CONSTITUTES A CURRENT EXPENSE OF THE COUNTY AND SHOULD NOT IN ANY WAY BE CONSTRUED TO BE A DEBT OF THE COUNTY, OR THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF, IN CONTRAVENTION OF ANY APPLICABLE CONSTITUTIONAL OR STATUTORY LIMITATION OR REQUIREMENTS CONCERNING THE CREATION OF INDEBTEDNESS BY THE COUNTY, THE STATE, OR ANY POLITICAL SUBDIVISION THEREOF. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE COUNTY TO MAKE PAYMENTS UNDER THE LEASE AGREEMENTS CONSTITUTES A PLEDGE OF GENERAL REVENUES, FUNDS OR MONEYS OF THE COUNTY OR AN OBLIGATION OF THE COUNTY FOR WHICH THE COUNTY IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

The Certificates

The Certificates will be executed and delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive Certificates representing their ownership interests in the Certificates purchased. The Certificates will be executed and delivered in the principal amount of $5,000 and any integral multiple thereof. Interest represented by the Certificates is payable semiannually on March 1 and September 1 of each year, commencing on September 1, 2004. Principal and interest payments (and prepayment price) due with respect to the Certificates are payable directly to DTC by BNY Western Trust Company, as Trustee. Upon receipt of payments of principal and interest (and prepayment price), DTC will, in turn, distribute such payments to the beneficial owners of the Certificates. See "Certificates-General" herein and Appendix G- "DTC and the Book-Entry System" attached hereto.

Prepayment

The Certificates are subject to extraordinary, optional and mandatory sinking account prepayment prior to maturity, as described herein. See "The Certificates-Prepayment" herein

The Insurance Policy

Payment of principal of and interest on each Series of the Certificates when due will be insured by an insurance policy for each Series of the Certificates (collectively, the "Insurance Policy") to be issued concurrently with the delivery of the Certificates by Ambac Assurance Corporation (the "Insurer"). See "The Insurance Policy and the Insurer" herein and Appendix E – "Form of Insurance Policy" attached hereto.

Tax Matters

For a description of the tax status of interest due with respect to the Certificates, see "Tax Matters" herein and see the complete copy of Special Counsel opinion set forth in Appendix D hereto.

Continuing Disclosure Obligation

The County has agreed to provide, or cause to be provided, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (each, a "Repository") certain annual financial information and operating data and, in a timely manner, notice of certain material events. These covenants have been made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b)(5). See "Continuing Disclosure" herein and Appendix F - "Form of Continuing Disclosure Agreement."

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities and Exchange Act of 1934, as amended. Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or other similar words.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the County's forecasts in any way. Except as set forth in the Continuing Disclosure Agreement, the County does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations, or events, conditions or circumstances on which such statements are based occur or do not occur.

Miscellaneous

The description herein of the Trust Agreements, the Lease Agreements, the Site Leases, the Assignment Agreements, the Continuing Disclosure Agreement and any other agreements relating to the Certificates are qualified in their entirety by reference to such documents, and the descriptions herein of the Certificates are qualified in their entirety by the form thereof and the information with respect thereto included in the aforementioned documents. See Appendix C – "Summary of Principal Legal Documents." Copies of the documents are on file and available for inspection at the offices of the County and the Trustee at 550 Kearny Street, Suite 600, San Francisco, CA 94108, Attention: Corporate Trust Department.

All capitalized terms used in this Official Statement and not otherwise defined herein have the meanings given such terms in Appendix C – "Summary of Principal Legal Documents" attached hereto.

The information and expressions of opinion herein speak only as of their date and are subject to change without notice. Neither the delivery of this Official Statement nor any sale made hereunder nor any future use of this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the County since the date hereof.

The presentation of information, including tables of receipt of revenues, is intended to show recent historical information and is not intended to indicate future or continuing trends in the financial position or other affairs of the County. No representation is made that past experience, as it might be shown by such financial and other information, will necessarily continue or be repeated in the future.

PLAN OF FINANCE

The Series 2004A Certificates are being executed and delivered to (i) finance a portion of the costs of the acquisition, construction and installation of the Series 2004A Project (as defined herein), (ii) fund a reserve fund for the Series 2004A Certificates, (iii) pay capitalized interest on the Series 2004A Certificates through September 1, 2006 and (iv) pay the costs of execution and delivery for the Series 2004A Certificates. The Series 2004B Certificates are being executed and delivered to (i) finance a portion of the costs of the acquisition, construction and installation of the Series 2004B Project (as defined herein), (ii) fund a reserve fund for the Series 2004B Certificates, (iii) pay capitalized interest on the Series 2004B Certificates through September 1, 2006 and (iv) pay the costs of execution and delivery for the Series 2004B Certificates.

The table below sets forth the estimated sources and uses of the proceeds of the Certificates and other amounts.

Estimated Sources and Uses of Proceeds of the Certificates and other Amounts

Sources	Series 2004A Certificates	Series 2004B Certificates
Certificate Proceeds	$15,340,000.00	$27,455,000.00
Net Premium	31,662.45	56,450.85
Total	$15,371,662.45	$27,511,450.85
Uses		
Reserve Fund	$ 1,126,220.00	$ 2,018,710.00
Costs of Issuance(1)	306,800.00	615,153.00
Bond Insurance Premium	224,378.50	401,556.85
Construction Fund	12,403,200.27	22,129,811.58
Capitalized Interest Account(2)	1,311,063.68	2,346,219.42
Total	$15,371,662.45	$27,511,450.85

(1) Includes underwriter's discount, rating agency fees, financial advisory fees, legal fees, printing costs and other costs of execution and delivery of the related Certificates.

(2) Funds deposited in the respective Capitalized Interest Account will be sufficient to pay interest with respect to the Series 2004A Certificates and the Series 2004B Certificates, as applicable, through September 1, 2006.

THE PROJECT AND THE PROPERTY

The Project

The proceeds of the Series 2004A Certificates will finance the acquisition, construction and installation of the Gallo Center for the Arts (the "Series 2004A Project") and the proceeds of the Series 2004B Certificates will finance the acquisition, construction and installation of the 12th Street Office and Parking Garage and the reimbursement of costs previously incurred for the acquisition and renovation of the Nick W. Blom Salida Regional Library (the "Series 2004B Project" and, collectively with Series 2004A Project, the "Project"). The Project is described below.

Gallo Center for the Arts. The Gallo Center for the Arts will consist of two performance halls, the Mary Stuart Rogers Theater, which will seat 1,200, and the Foster Family Theater, which will seat 400. Parking for the Gallo Center for the Arts will be available within the 12th Street Parking Garage and at other existing downtown parking structures. Construction of the Gallo Center for the Arts is expected to begin Spring 2004 and is expected to be completed in Spring 2006. The Gallo Center for the Arts site occupies approximately three-quarters of the city block bounded by 10th and 11th Streets, 'H' and 'I' Streets in downtown Modesto, California, with the remainder of the block occupied by the 801 11th Street Building, which is occupied by County personnel and constitutes a portion of the Series 2004B Property leased under the Series 2004B Lease Agreement. The County acquired the Gallo Center for the Arts site, and the entire city-block on which it is located, in the late 1990's.

The total cost of the Gallo Center for the Arts is estimated to be approximately $34.9 million, which is expected to be financed as follows: approximately $12.5 million to be funded from the proceeds of the Series 2004A Certificates; approximately $2.5 million to be funded by the County through land contribution; approximately $200,000 to be funded by the City of Modesto and approximately $19.7 million to be funded by the Central Valley Center for the Arts, Inc., a 501(c)(3) nonprofit corporation organized to support the arts in the County and Gallo Center for the Arts, LLC, a single member LLC that is wholly-owned by CVCA (collectively "CVCA"), through the issuance of conduit revenue bonds and a cash contribution, which will be deposited with the County prior to the delivery of the Certificates.

The Gallo Center for the Arts will be constructed and owned by the County and will be operated by CVCA under a separate operating agreement, dated February 17, 2004, by and between the County and CVCA. CVCA has hired an executive director and staff to manage the programming and operations of the Gallo Center for the Arts.

12th Street Office and Parking Garage. The 12th Street Office and Parking Garage will include a six-story office building of approximately 89,000 square feet and an adjoining 711-space parking garage structure. Construction of the 12th Street Office and Parking Garage is expected to begin in April 2004 and to be completed in April 2005. The total cost of the 12th Street Office and Parking Garage is estimated to be approximately $22 million which is expected to be financed as follows: $17 million to be funded from the proceeds of the Series 2004B Certificates and approximately $5 million to be funded by the Stanislaus County Employees' Retirement Association ("StanCERA") and Westland Development Company, LLC ("Westland"), which will be deposited with the County prior to the delivery of the Certificates.

The 12th Street Office building will be owned by the County, StanCERA and Westland. A condominium agreement between the three parties identifies the ownership as follows: the ground level and second floor of the 12th Street Office will be owned by Westland and will be occupied by retail tenants; the third, fourth and fifth stories of the 12th Street Office will be owned and occupied by the

County and will be used primarily as new office space for the District Attorney's Office and the sixth floor of the 12th Street Office will be owned and occupied by StanCERA for its offices. **The 12th Street Office is not a component of the Series 2004B Lease Agreement.**

The 12th Street Parking Garage will consist of a seven-level, 711-space parking structure immediately adjacent to the 12th Street Office building. The 12th Street Parking Garage will provide weekday, daytime parking for 508 County employee and official vehicles and, through parking license agreement, 103 spaces for use by the retail space tenants and customers and 56 spaces for use by StanCERA for its employees, tenants and customers. Forty-four spaces will be available for daytime public parking. The 12th Street Parking Garage will be available during evenings and weekends for public use to support the Gallo Center for the Arts and other downtown businesses as the gate-controlled area will be opened. The County will manage the 12th Street Parking Garage operations.

Nick W. Blom Salida Regional Library. In 2001, the County purchased a 56,000 square foot retail building at 4835 Sisk Road in Salida (at Highway 99 near Broadway Avenue) for $4.3 million. The building formerly housed a furniture store and was constructed in 1979. The building was renovated into a regional library, community room and office space through a design and remodel at a cost of $2.35 million, financed by the County and completed in spring of 2003. The Nick W. Blom Salida Regional Library (the "Library") opened to the public on April 29, 2003. A portion of the Series 2004B Certificates will be used to reimburse the County for the costs of the acquisition and renovation of the Library.

The Library provides roughly 25,000 square feet of public space, another 15,000 square feet of library material preparation and distribution facilities, 5,000 square feet within a multipurpose community room and kitchenette, and another 6,000 square feet reserved for future expansion and includes a public lobby, public restrooms and a small storage mezzanine. In addition to the purchase and renovation cost, the County plans to spend an aggregate of $1.8 million to acquire library shelving and furnishings, computers, new circulation materials, signage and other enhancements. This amount will include a secondary project to upgrade and renovate the remaining portions of the property at an approximate cost of $770,000, which is to be considered by the County's Board of Supervisors in early 2004.

The Property

The County will lease the Gallo Center for the Arts under the Series 2004A Lease Agreement (the "Series 2004A Property") and the 12th Street Parking Garage, the Nick W. Blom Salida Regional Library, the Stanislaus County Men's Jail and the 801 11th Street Building under the Series 2004B Lease (collectively, the "Series 2004B Property", and together with the Series 2004A Property, the "Property") from the Authority. **The 12th Street Office is not a component of the Series 2004B Lease Agreement.** The County may amend each Lease Agreement to release any portion of the respective Property or to substitute other property for the respective Property leased thereunder or any portion thereof leased thereunder upon compliance with all of the terms set forth in the respective Lease Agreement. See Appendix C - "Summary of Principal Legal Documents."

The Series 2004A Property consists of the Gallo Center for the Arts. For a description of the Series 2004A Property, see "The Project- Gallo Center for the Arts" above. The Series 2004B Property consists of the 12th Street Parking Garage, the Nick W. Blom Salida Regional Library, the Stanislaus County Men's Jail and the 801 11th Street Building. For a description of the 12th Street Parking Garage and the Nick W. Blom Salida Regional Library, see "The Project- 12th Street Office and Parking Garage and the Nick W. Blom Salida Regional Library" above. The Stanislaus County Men's Jail and the 801 11th Street Building are described below. **The 12th Street Office is not a component of the Series 2004B Lease Agreement.**

Stanislaus County Men's Jail. The Stanislaus County Men's Jail (the "Jail"), consisting of three stories and a basement with a total aggregate area of 51,000 square feet, was originally constructed in 1953. In 1970, the northwest wing of the third floor of the Jail was added and numerous repairs and upgrades to the Jail (such as HVAC, security systems, and alarms) have been made over the past several years, including, but not limited to, the installation of an exercise yard on the roof of the Jail. The Jail's construction is basically reinforced concrete, and is classified as Type 1 fire resistant construction.

The Jail has a Board of Corrections rating for 333 beds, of which 296 are classified as medium/maximum security, and 37 are for minimum security inmate workers. The Jail is part of the County's detention system, with the majority of the County's detention capacity located at the Public Safety Center approximately four miles away from the Jail. The Jail is used primarily to accommodate pre-sentenced males due to its proximity to the Modesto Main Courthouse (the "Courthouse"), and acts as the security drive-in carport for transportation and holding of persons in custody between other jail facilities and the courts. The Courthouse itself does not contain holding facilities for persons in custody; thus making the Jail a necessary component of the system.

The basement of the Jail includes a drive-in carport, laundry, general storage, and a main kitchen and the inmate workers' dining facility. The Jail and the Courthouse are connected by a basement-level tunnel passageway for the secured movement of persons in custody to and from court. The first floor of the Jail contains the booking and central control area, a medical treatment room, the main lobby, offices for the jail division and 14 non-contact visiting booths. Two detention areas are located on the first floor, as well as a large dormitory for inmate workers (which houses approximately 37 people), a second area with two holding cells, two safety cells, detoxification cell, ten single cells and three cells. The second floor of the Jail has approximately ten multi-person cells housing 12 people each, 25 single person cells, two attorney visiting rooms, the inmate library, the barber shop, clothing storage and an officers' station while the third floor has 29 single cells, two cells that can accommodate four people each, nine cells that hold six people each, one ten person cell, and three 12 person cells, and a law library. While there is no public parking on the Jail site, 32 secured parking spaces are available in a courtyard between the Jail and the Courthouse.

801 11th Street Building. The 801 11th Street Building (the "Building") was originally developed by the City of Modesto between 1960 and 1961 and consisted of three floors and a basement. A fourth floor was added in the 1977, providing a total of 47,560 gross square feet (42,312 net usable square feet). The Building's construction consists of a steel frame with concrete walls and decking. A majority of the Building's exterior walls are glass window panels, and the 10th and 11th Street facing walls have concrete block panels up to the third level. The Building's basement has concrete wall exterior, and the roof mounted mechanical room is basically brick face construction. The Building is class A-B, mostly fire resistant.

The County acquired the Building, and the entire city-block on which it is located in the late 1990's. The Building occupies approximately one quarter of the block, with the remainder of the property designated as the site of the Gallo Center for the Arts (see "The Project- Gallo Center for the Arts" above). In 2003, the County extensively remodeled the Building's interior, removing the majority of interior walls to provide for greater open-office environment and greater space utilization. The Building underwent maintenance and upgrade, which included the replacement of the heating, ventilation and cooling (HVAC) systems, data and telecommunications systems and fire protection (sprinkler system). The Building's restrooms were enlarged to provide greater accessibility, and new flooring, ceilings and lighting were added corresponding to the new tenant needs.

The County's Family Court (Superior Court Department 16) and judge's chambers are located on the basement level of the Building while the County Probation Department's Adult Division is now located in the basement and first and second floors of the Building. The basement also houses staff for the Sheriff's Civil Division and the Guardian ad Litem Division. Family Court staff from the Department of Child Support Services and the District Attorney, plus the Sheriff's Alternative Work Program are now located on the third floor of the Building while the County's Strategic Business Technology functions (Management Information Systems) are located on the fourth floor, along with various meeting and training rooms.

THE CERTIFICATES

General

The Certificates will be executed and delivered in book-entry form only and, when delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Certificates. Individual purchases of the Certificates will be made in book-entry form only. Purchasers of the Certificates will not receive Certificates representing their ownership interests in the Certificates purchased. The Certificates will be executed and delivered in the principal amount of $5,000 and any integral multiple thereof. Interest represented by the Certificates is payable semiannually on March 1 and September 1 of each year, commencing on September 1, 2004. Principal and interest payments (and prepayment price) due with respect to the Certificates are payable directly to DTC by BNY Western Trust Company, as Trustee. Upon receipt of payments of principal and interest (and prepayment price), DTC will in turn distribute such payments to the beneficial owners of the Certificates. See "Appendix G – "DTC and the Book-Entry System."

Prepayment

Extraordinary Prepayment. The Certificates of each Series are subject to prepayment prior to their respective maturity dates on any date, in whole or in part, from Net Proceeds related to such Series which the Trustee shall deposit in the Prepayment Fund as provided in the related Lease Agreement at least 45 days prior to the date fixed for prepayment and credited towards the prepayment made by the County pursuant to the related Lease Agreement, at a prepayment price equal to the principal amount thereof together with accrued interest to the date fixed for prepayment, without premium.

Optional Prepayment. The Series 2004A Certificates maturing on or after September 1, 2013 are subject to prepayment prior to maturity in whole or in part on any date on or after September 1, 2012, at the option of the County, in the event the County exercises its option under the Series 2004A Lease Agreement to prepay all or a portion of the principal component of the Series 2004A Lease Payments (in integral multiples of $5,000), at a prepayment price equal to the principal component to be prepaid, plus accrued interest to the date fixed for prepayment:

Prepayment Period	Prepayment Price
September 1, 2012 to August 31, 2013	101%
September 1, 2013 and thereafter	100

In the event the County gives notice to the Trustee of its intention to exercise such option, but fails to deposit with the Trustee on or prior to the prepayment date an amount equal to the prepayment price, the County will continue to pay the Series 2004A Lease Payments as if no such notice had been given.

The Series 2004B Certificates maturing on or after September 1, 2013 are subject to prepayment prior to maturity in whole or in part on any date on or after September 1, 2012, at the option of the County, in the event the County exercises its option under the Series 2004B Lease Agreement to prepay all or a portion of the principal component of the Series 2004B Lease Payments (in integral multiples of $5,000), at a prepayment price equal to the principal component to be prepaid, plus accrued interest to the date fixed for prepayment:

Prepayment Period	Prepayment Price
September 1, 2012 to August 31, 2013	101%
September 1, 2013 and thereafter	100

In the event the County gives notice to the Trustee of its intention to exercise such option, but fails to deposit with the Trustee on or prior to the prepayment date an amount equal to the prepayment price, the County will continue to pay the Series 2004B Lease Payments as if no such notice had been given.

Mandatory Sinking Account Prepayment. The Series 2004A Certificates maturing September 1, 2019 (the "Series 2004A 2019 Term Certificates") are subject to prepayment in part by lot, on September 1 in each of the following years from sinking account payments as set forth below at a prepayment price equal to the principal amount thereof to be prepaid, without premium; provided, however, that if some but not all of the Series 2004A 2019 Term Certificates have been prepaid pursuant to an optional or extraordinary prepayment, the total amount of all future sinking account payments will be reduced as nearly as practicable on a pro rata basis in integral multiples of $5,000 by the aggregate principal amount of the Series 2004A 2019 Term Certificates so prepaid. In addition, in lieu of prepayment thereof, the Series 2004A 2019 Term Certificates may be purchased by the County and tendered to the Trustee pursuant to the provisions of the Series 2004A Trust Agreement.

Prepayment Date (September 1)	**Mandatory Sinking Account Prepayment**
2018	$800,000
2019†	835,000

† Final Maturity

The Series 2004A Certificates maturing September 1, 2025 (the "Series 2004A 2025 Term Certificates") are subject to prepayment in part by lot, on September 1 in each of the following years from sinking account payments as set forth below at a prepayment price equal to the principal amount thereof to be prepaid, without premium; provided, however, that if some but not all of the Series 2004A 2025 Term Certificates have been prepaid pursuant to an optional or extraordinary prepayment, the total amount of all future sinking account payments will be reduced as nearly as practicable on a pro rata basis in integral multiples of $5,000 by the aggregate principal amount of the Series 2004A 2025 Term Certificates so prepaid. In addition, in lieu of prepayment thereof, the Series 2004A 2025 Term Certificates may be purchased by the County and tendered to the Trustee pursuant to the provisions of the Series 2004A Trust Agreement.

Prepayment Date (September 1)	**Mandatory Sinking Account Prepayment**
2023	$ 985,000
2024	1,025,000
2025†	1,070,000

† Final Maturity

The Series 2004B Certificates maturing September 1, 2019 (the "Series 2004B 2019 Term Certificates") are subject to prepayment in part by lot, on September 1 in each of the following years from sinking account payments as set forth below at a prepayment price equal to the principal amount thereof to be prepaid, without premium; provided, however, that if some but not all of the Series 2004B 2019 Term Certificates have been prepaid pursuant to an optional or extraordinary prepayment, the total amount of all future sinking account payments will be reduced as nearly as practicable on a pro rata basis in integral multiples of $5,000 by the aggregate principal amount of the Series 2004B 2019 Term Certificates so prepaid. In addition, in lieu of prepayment thereof, the Series 2004B 2019 Term Certificates may be purchased by the County and tendered to the Trustee pursuant to the provisions of the Series 2004B Trust Agreement.

Prepayment Date (September 1)	**Mandatory Sinking Account Prepayment**
2018	$1,440,000
2019†	1,485,000

† Final Maturity

The Series 2004B Certificates maturing September 1, 2025 (the "Series 2004B 2025 Term Certificates") are subject to prepayment in part by lot, on September 1 in each of the following years from sinking account payments as set forth below at a prepayment price equal to the principal amount thereof to be prepaid, without premium; provided, however, that if some but not all of the Series 2004B 2025 Term Certificates have been prepaid pursuant to an optional or extraordinary prepayment, the total amount of all future sinking account payments will be reduced as nearly as practicable on a pro rata basis in integral multiples of $5,000 by the aggregate principal amount of the Series 2004B 2025 Term Certificates so prepaid. In addition, in lieu of prepayment thereof, the Series 2004B 2025 Term Certificates may be purchased by the County and tendered to the Trustee pursuant to the provisions of the Series 2004B Trust Agreement.

Prepayment Date (September 1)	**Mandatory Sinking Account Prepayment**
2023	$1,755,000
2024	1,835,000
2025†	1,915,000

† Final Maturity

Selection of Certificates for Prepayment. Whenever provision is made in the Trust Agreements for the optional prepayment of Certificates and less than all Outstanding Certificates are called for optional prepayment, the Trustee shall select Certificates for optional prepayment from among maturities selected by the County and by lot within any maturity. For extraordinary prepayment of Certificates pursuant to the Trust Agreements, the Trustee shall select Certificates for prepayment pro rata among maturities and by lot within any maturity. The Trustee shall promptly notify the County and the Authority in writing of the Certificates so selected for prepayment by mailing to the County and the Authority copies of the notice of prepayment provided for in the Trust Agreements.

Notice of Prepayment. When prepayment is authorized or required pursuant to the Trust Agreements, the Trustee shall give notice of the prepayment of the applicable Certificates. Such notice shall specify: (a) the prepayment date, (b) the prepayment price, (c) if less than all of the Outstanding Certificates of a maturity are to be prepaid, the Certificate numbers (and in the case of partial prepayment, the respective principal amounts), (d) the CUSIP numbers of the Certificates to be prepaid, (e) the place or places where the prepayment will be made, (f) the original date of execution and delivery of the Certificates, and (g) any other descriptive information regarding the Certificates needed to identify accurately the Certificates being prepaid. Such notice shall further state that on the specified date there shall become due and payable upon each Certificate to be prepaid, the portion of the principal amount of such Certificate to be prepaid, together with interest accrued to said date, and that from and after such date, provided that moneys therefor have been deposited with the Trustee, interest with respect thereto shall cease to accrue and be payable.

Notice of such prepayment shall be sent by first class mail or delivery service postage prepaid, or by telecopy or by such other method acceptable to such institutions, to the municipal Securities Depository (as defined in the Trust Agreements) on the date of mailing of notice to the Owners by first class mail and to the Information Services (as defined below) that disseminate securities redemption notices, on the date notice is mailed to the Owners and by first class mail, postage prepaid, to the Authority and the respective Owners of any Certificates designated for prepayment at their addresses appearing on the Certificate registration books, at least thirty (30) days, but not more than sixty (60) days, prior to the prepayment date; provided that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates. Under no circumstances shall the Trustee have any liability to any party for any inaccurate CUSIP number.

In addition, notice of such prepayment shall also be sent by certified mail, overnight delivery service, facsimile transmission or other secure means, postage prepaid, to all municipal registered Securities Depositories and to at least two of the national information services (the "Information Services") that disseminate securities prepayment notices, when possible, at least two (2) days prior to the mailing of notices required by the first paragraph above, and in any event no later than simultaneously with the mailing of notices required by the first paragraph above; provided, that neither failure to receive such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the prepayment of such Certificates.

Partial Prepayment of Certificates. Upon surrender by the Owner of a Certificate for partial prepayment at the Principal Office, payment of such partial prepayment of the principal amount of a Certificate will be paid to such Owner. Upon surrender of any Certificate prepaid in part only, the Trustee shall execute and deliver to the registered Owner thereof, at the expense of the County, a new Certificate or Certificates which shall be of authorized denominations equal in principal amount to the unprepaid portion of the Certificate surrendered and of the same tenor and maturity. Such partial prepayment shall be valid upon payment of the amount thereby required to be paid to such Owner, and the County, the Authority and the Trustee shall be released and discharged from all liability to the extent of such payment.

Effect of Prepayment. Notice having been given to the Owners of the Certificates as required under the Trust Agreement, and the moneys for the prepayment (including, the interest to the applicable date of prepayment), having, been set aside in the applicable Prepayment Fund, the Certificates shall become due and payable on said date of prepayment, and, upon presentation and surrender thereof at the Principal Office, said Certificates shall be paid at the prepayment price with respect thereto, plus interest accrued and unpaid to said date of prepayment.

If, on said date of prepayment, moneys for the prepayment of all the Certificates to be prepaid, together with interest to said date of prepayment, shall be held by the Trustee so as to be available therefor on such date of prepayment, and, if notice of prepayment thereof shall have been given as aforesaid, then, from and after said date of prepayment, interest with respect to the Certificates to be prepaid shall cease to accrue and become payable. All moneys held by or on behalf of the Trustee for the prepayment of Certificates shall be held in trust for the account of the Owners of the Certificates so to be prepaid, without liability for interest thereon.

All Certificates paid at maturity or prepaid prior to maturity pursuant to the Trust Agreements shall be cancelled upon surrender thereof and destroyed.

SECURITY AND SOURCES OF PAYMENT FOR THE CERTIFICATES

General

Each Series of the Certificates is separately secured by its related Lease Payments and under its related Trust Agreement and Lease Agreement. The Owners of one Series of Certificates will have no claim on the revenues or funds securing the other Series of Certificates or on other amounts held under the Trust Agreement for the other Series. Nothing within this Official Statement is intended to imply that there exists any cross-application or cross-collateralization

between Series, including, but not limited to, any cross-defaults between the respective Trust Agreements.

Under each Lease Agreement, the obligation of the County to make Lease Payments is subject to and dependent upon its beneficial use and occupancy of the related Property. Each Series of Certificates will be obligations payable solely from certain pledged revenues under the related Trust Agreement, including Lease Payments made pursuant to the related Lease Agreement.

Lease Payments

The Certificates of a Series evidence a direct, fractional undivided interest in the Lease Payments to be made by the County under the Lease Agreement related to such Series. The County is required under the Lease Agreements to make Lease Payments from legally available funds. The County has covenanted in the Lease Agreements to take such action as may be necessary to include all Lease Payments and Additional Payments with respect to the Property in its annual budget and to make the necessary annual appropriations therefor (except to the extent such payments are abated). Lease Payments are scheduled to be paid as set forth below. See "– Lease Payment Schedule" herein.

The Trustee, pursuant to the Lease Agreement, the Assignment Agreement and the Trust Agreement for a Series, will receive Lease Payments related to such Series for the benefit of the Owners of such Series. Lease Payments are scheduled to be sufficient to pay, when due, amounts designated as principal and interest with respect to the Certificates. The Trustee will not have any obligation or liability to the Owners to make payment of principal, premium, if any, or interest with respect to a Series of Certificates except from Lease Payments paid by the County under the related Lease Agreement or other amounts available to it under the related Trust Agreement for such purposes; and the amounts of such payments shall be limited to amounts designated as principal and interest with respect to the Certificates. Additional Payments payable by the County under the Lease Agreements include amounts sufficient to pay certain taxes and assessments, insurance premiums, and certain administrative costs. Lease Payments and Additional Payments are subject to abatement in the event of material damage to, or destruction or condemnation of, or title defect with respect to, the Property. See "– Abatement" herein. The County is also responsible for the repair and maintenance of the Property to the extent provided in the Lease Agreements. See Appendix C – "Summary of Principal Legal Documents – Definitions and Summary of Certain Provisions of the Lease - Covenants with Respect to the Property- Maintenance, Utilities, Taxes and Assessments."

Subject to the provisions of the Lease Agreements relating to abatement more particularly described herein, the Lease Agreements provide that the obligation of the County to pay Lease Payments and Additional Payments shall be absolute and unconditional, free and clear of any expenses, charges or set-offs whatsoever and notwithstanding any dispute between the County and the Authority.

There is no remedy of acceleration of Lease Payments and Additional Payments over the term of the Lease Agreements. See "Risk Factors- Default; No Acceleration" herein.

THE OBLIGATION OF THE COUNTY TO MAKE THE LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE COUNTY OR OF THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE COUNTY OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION.

Lease Payment Schedule

The Lease Agreements require semi-annual payments to the Trustee, as assignee of the Authority, each February 15 and August 15, commencing August 15, 2004 (or if such day is not a Business Day, the next succeeding Business Day). Pursuant to the Trust Agreements and the Lease Agreements, the Lease Payments will be deposited in the Lease Payment Fund and applied to principal and interest payments with respect to the Certificates. Pursuant to the Lease Agreements, any amount held in the Lease Payment Fund for a Series of Certificates on any Lease Payment Date (other than as provided in the Trust Agreements) shall be credited towards the Lease Payment then due and payable with respect to such Series. No Lease Payment shall be made on any Lease Payment Date if the amounts then held in the related Lease Payment Fund (other than those amounts excluded under the related Trust Agreement) are at least equal to the Lease Payment then required to be paid. A table of aggregate semi-annual Lease Payments due under the Lease Agreements and payable with respect to the Certificates is set forth on the following page.

LEASE PAYMENT SCHEDULE

Payment Dates	Series 2004A Principal	Series 2004A Interest[1]	Series 2004B Principal	Series 2004B Interest[1]	Total
8/15/04		$219,773.68		$393,296.90	$613,070.58
2/15/05		272,822.50		488,230.63	761,053.13
8/15/05		272,822.50		488,230.63	761,053.13
2/15/06		272,822.50		488,230.63	761,053.13
8/15/06	$580,000.00	272,822.50	$1,040,000.00	488,230.63	2,381,053.13
2/15/07		268,110.00		479,780.64	747,890.64
8/15/07	590,000.00	268,110.00	1,055,000.00	479,780.64	2,392,890.64
2/15/08		261,841.25		468,571.26	730,412.51
8/15/08	595,000.00	261,841.25	1,070,000.00	468,571.26	2,395,412.51
2/15/09		255,519.38		457,202.51	712,721.89
8/15/09	610,000.00	255,519.37	1,090,000.00	457,202.51	2,412,721.88
2/15/10		248,656.88		444,940.01	693,596.89
8/15/10	620,000.00	248,656.87	1,115,000.00	444,940.01	2,428,596.88
2/15/11		240,519.38		430,305.63	670,825.01
8/15/11	640,000.00	240,519.37	1,140,000.00	430,305.63	2,450,825.00
2/15/12		230,919.38		413,205.63	644,125.01
8/15/12	655,000.00	230,919.37	1,175,000.00	413,205.63	2,474,125.00
2/15/13		221,094.38		395,580.63	616,675.01
8/15/13	675,000.00	221,094.37	1,205,000.00	395,580.63	2,496,675.00
2/15/14		210,125.63		375,999.38	586,125.01
8/15/14	700,000.00	210,125.62	1,245,000.00	375,999.38	2,531,125.00
2/15/15		197,875.63		354,211.88	552,087.51
8/15/15	720,000.00	197,875.62	1,295,000.00	354,211.88	2,567,087.50
2/15/16		184,915.63		330,901.88	515,817.51
8/15/16	750,000.00	184,915.62	1,340,000.00	330,901.88	2,605,817.50
2/15/17		171,040.63		306,111.88	477,152.51
8/15/17	775,000.00	171,040.62	1,390,000.00	306,111.88	2,642,152.50
2/15/18		156,315.63		279,701.88	436,017.51
8/15/18	800,000.00[2]	156,315.62	1,440,000.00[2]	279,701.88	2,676,017.50
2/15/19		140,315.63		250,901.88	391,217.51
8/15/19	835,000.00[2]	140,315.62	1,485,000.00[2]	250,901.88	2,711,217.50
2/15/20		123,615.63		221,201.88	344,817.51
8/15/20	870,000.00	123,615.62	1,555,000.00	221,201.88	2,769,817.50
2/15/21		105,780.63		189,324.38	295,105.01
8/15/21	905,000.00	105,780.62	1,620,000.00	189,324.38	2,820,105.00
2/15/22		87,115.00		155,911.88	243,026.88
8/15/22	940,000.00	87,115.00	1,690,000.00	155,911.88	2,873,026.88
2/15/23		67,375.00		120,421.88	187,796.88
8/15/23	985,000.00[2]	67,375.00	1,755,000.00[2]	120,421.88	2,927,796.88
2/15/24		45,828.13		82,031.26	127,859.39
8/15/24	1,025,000.00[2]	45,828.12	1,835,000.00[2]	82,031.26	2,987,859.38
2/15/25		23,406.25		41,890.64	65,296.89
8/15/25	1,070,000.00[2]	23,406.25	1,915,000.00[2]	41,890.64	3,050,296.89
Total	$15,340,000.00	$7,791,803.68	$27,455,000.00	$13,942,613.44	$64,529,417.12

(1) Interest with respect to the Series 2004A Lease Payments and the Series 2004B Lease Payments will be paid from capitalized interest held under the related Trust Agreement through September 1, 2006.

(2) These payments represent mandatory sinking fund payments of the Certificates as described herein. See The Certificates - Prepayment - Mandatory Sinking Account Prepayment."

Insurance

The Lease Agreements require the County to maintain or cause to be maintained, throughout the term of the Lease Agreements, a standard comprehensive general liability insurance policy or policies in protection of the County and its respective officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or ownership of the Property as provided in the Lease Agreements.

The Lease Agreements require the County to maintain or cause to be maintained, throughout the term of the Lease Agreements, workers' compensation insurance as provided in the Lease Agreements.

The Lease Agreements also require the County to maintain or cause to be maintained casualty insurance insuring the Property against fire, lightning and all other risks covered by an extended coverage endorsement (excluding earthquake and flood) to the full replacement value of the Property, subject to a not to exceed $250,000 deductible provision, unless a higher deductible is acceptable to the Insurer. The Lease Agreements define full replacement value as the actual replacement cost of the improvements constituting the Property.

The Lease Agreements require the County to maintain rental interruption insurance in an amount not less than the maximum remaining scheduled Lease Payments in any future 24-month period to cover the Authority's loss, total or partial, of Lease Payments resulting from the loss, total or partial, of the use of any part of the Property as a result of any of the hazards required to be covered pursuant to pursuant to the Lease Agreements. The County may not self-insure its rental interruption obligation.

Finally, the County must provide, at its own expense, one or more ALTA title insurance policies for the Property in the an amount equal to the aggregate amount of principal evidenced by the Certificates and Additional Certificates Outstanding as required by the Lease Agreements. See Appendix C-"Summary of Principal Legal Documents- Definitions and Summary of Certain Provisions of the Lease-Insurance."

Abatement

In the Event of Non-completion. To the extent described below, the amount of Lease Payments and Additional Payments due under a Lease Agreement shall be abated during any period in which by reason of delay in the completion of the Project described in such Lease Agreement beyond the completion date set forth therein there is substantial interference with the County's use and occupancy of the Project. The amount of such abatement shall be such that the resulting Lease Payments and Additional Payments do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the County, who may not be an employee of the County) for the use and occupancy of the Property and the completed portions of the improvements constituting the Project leased therein. Such abatement shall continue until the substantial completion of the related Project. Notwithstanding the foregoing, the County shall remain obligated to make Lease Payments and Additional Payments under the related Lease Agreement to the extent there are proceeds of any completion or performance bonds or moneys paid to the County by the contractors or any other person as liquidated damages as a result of any defect or delay in completion of the related Project or to the extent that amounts in the Reserve Fund for the related Series of Certificates are available to pay Lease Payments and Additional Payments which would otherwise be abated. Any amounts received by the County as liquidated damages for a delay in the completion of the Project shall be deposited by the County immediately upon receipt in the applicable Lease Payment Fund.

In the Event of Damage, Destruction, Condemnation or Title Defect. Except to the extent that proceeds of the type described in the following paragraph are available, the amount of Lease Payments and Additional Payments related to a Series shall be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation of the Property related to a Series or defects in the title with respect to such Property there is substantial interference with the use and possession of all or a portion of such Property by the County. The amount of such abatement shall be such that the resulting Lease Payments, exclusive of the amounts described in the following paragraph, do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the County, who is not an employee of the County) for the use and possession of the portion of the Property not damaged, destroyed, interfered with or taken. Such abatement shall continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. Except as provided in the Lease Agreement, in the event of any such damage, destruction, interference or taking, the related Lease Agreement shall continue in full force and effect and the County waives any right to terminate the related Lease Agreement by virtue of any such damage, destruction, interference or taking.

Notwithstanding a substantial interference with the use and possession of all or a portion of the Property, the County shall remain obligated to make Lease Payments which would otherwise be abated (i) to the extent that moneys derived from any person as a result of any delay in the reconstruction, replacement or repair of the Property, or any portion thereof, are available to pay the amount which would otherwise be abated; and (ii) to the extent that moneys are available in the Reserve Fund or the Lease Payment Fund for the related Series of Certificates to pay the amount which would otherwise be abated. The Lease Payments shall be payable from such amounts paid under (i) and (ii) above as an obligation of the County payable from a special fund. See Appendix C- "Summary of Principal Legal Documents- Definitions and Summary of Certain Provisions of the Lease - Abatement of Lease Payments in Event of Loss of Use."

An event of abatement under one Lease Agreement will not cause an abatement under the other Lease Agreement.

Reserve Funds

Pursuant to the Trust Agreements, the Trustee must establish and maintain a Reserve Fund under each Trust Agreement until all related Lease Payments are paid in full pursuant to the respective Lease Agreement and until the first date upon which the related Series of Certificates are no longer Outstanding. The moneys in the respective Reserve Fund and any respective Reserve Facility must be held in trust by the Trustee for the benefit of the Owners of the Series of Certificates with respect to which such Reserve Fund was established and used and disbursed only for the purposes and uses authorized in the respective Trust Agreement. See Appendix C- "Summary of Principal Legal Documents- Definitions and Summary of Certain Provisions of the Trust Agreements - Reserve Fund."

Substitution or Release of Property

Under the Lease Agreements, the County shall have the right to substitute alternate real property for any portion of the Property described in the Lease Agreements or to release a portion of the Property from the lien of the Lease Agreements by satisfying the conditions set forth in the Lease Agreements, including prior written notice to the Insurer and a certificate from an independent California Certified General or equivalent certified real estate appraiser that the substituted property or the Property remaining after the release has a fair rental value greater than or equal to the Lease Payments thereafter becoming due and payable under the related Lease Agreement. All costs and expenses incurred in connection with such substitution or release shall be borne by the County. Notwithstanding any substitution pursuant to a Lease Agreement, there shall be no reduction in or abatement of the Lease Payments due from the County under such Lease Agreement as a result of such substitution. See Appendix C- "Summary of Principal Legal Documents- Definitions and Summary of Certain Provisions of the Lease - Substitution or Release of the Property."

Additional Certificates

Subsequent to the execution and delivery by the Trustee of the Certificates, the Trustee shall, upon written request or requests of the County Representative and of the Authority Representative, execute and deliver from time to time one or more series of Additional Certificates pursuant to a Trust Agreement in such aggregate principal amount as may be set forth in such written request or requests, provided that there shall have been compliance with all of the following conditions pursuant to the related Trust Agreement:

(a) The parties to the Trust Agreement shall have executed a supplemental agreement which (i) sets forth the terms and provisions of such Additional Certificates, including the establishment of such funds and accounts, which may be separate and apart from the funds and accounts established under the related Trust Agreement for the Certificates, as shall be necessary or appropriate, and (ii) requires that prior to the delivery of such Additional Certificates the Reserve Requirement with respect to such Additional Certificates shall be on deposit in the Reserve Fund established under the related Trust Agreement or in a reserve fund established under such supplemental agreement;

(b) The scheduled principal and interest payable with respect to such Additional Certificates shall be payable only on Interest Payment Dates applicable to the Certificates;

(c) The related Lease Agreement shall have been amended, if necessary, to (i) increase or adjust the Lease Payments due and payable on each Lease Payment Date to an amount sufficient to pay the principal, premium (if any) and interest payable with respect to all Outstanding Certificates under the related Trust Agreement, including all Additional Certificates as and when the same mature or become due and payable (except to the extent such principal, premium and interest may be payable out of moneys then in the Reserve Fund or otherwise on deposit with the Trustee in accordance with the related Trust Agreement), (ii) if appropriate, amend the definition of "Property" to include as part of the Property all or any portion of additions, betterments, extensions, improvements or replacements, or such other real or personal property (whether or not located upon the Property as such Property is constituted as of the date of such Trust Agreement), to be financed, acquired or constructed by the preparation, execution and delivery of such Additional Certificates, and (iii) make such other revisions to the Lease Agreement as are necessitated by the execution and delivery of such Additional Certificates (provided, however, that such other revisions shall not prejudice the rights of the Owners of Outstanding Certificates under the related Trust Agreement as granted them under the terms of such Trust Agreement);

(d) There shall have been delivered to the Trustee a counterpart of the amendments required by the related Trust Agreement;

(e) The Trustee shall have received a certificate of the Authority Representative that there exists on the part of the Authority no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default);

(f) The Trustee shall have received a certificate of the County Representative that (i) there exists on the part of the County no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) and (ii) the Lease Payments as increased or adjusted do not exceed in any year the fair rental value of the Property (as such term is defined in the amended Lease Agreement);

(g) The Trustee shall have received an opinion of Special Counsel substantially to the effect that (i) said supplemental agreement and said amendments to the Lease Agreement comply in all respects with the requirements of the related Trust Agreement, (ii) said supplemental agreement and said amendments to the Lease Agreement have been duly authorized, executed and delivered by each of the respective parties thereto (provided that said opinion of Special Counsel, in rendering the opinions set forth in this clause (ii), shall be entitled to rely upon one or more other opinions of counsel, including counsel to any of the respective parties to said supplemental agreement or said amendments to the Lease Agreement), (iii) assuming that no Event of Default has occurred and is continuing, the related Trust Agreement, as amended by said supplemental agreement, and the related Lease Agreement, as amended by the respective amendments thereto, constitute the legal, valid and binding obligations of the respective parties thereto, enforceable against said parties in accordance with their respective terms (except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, debt adjustment or other laws affecting creditors' rights generally, and except to the extent that enforcement thereof may be limited by general principles of equity, regardless of whether enforcement is sought in a legal or equitable proceeding) and (iv) the execution of such supplemental agreement and said amendments to the related Lease Agreement, and performance by the parties thereunder, will not result in the inclusion of the interest portion of any Lease Payments payable with respect to the related Series of Certificates, including Additional Certificates, theretofore prepared, executed and delivered, in the gross income of such Owners of the Certificates for purposes of federal income taxation;

(h) The County shall have provided the Insurer written notice of the proposed execution and delivery of such Additional Certificates at the addresses indicated in the related Trust Agreement and shall have received prior written consent of the Insurer with respect to such Additional Certificates; provided that any Additional Certificates being delivered to refund any outstanding Certificates shall not require the prior written consent of the Insurer if the aggregate maximum annual debt service with respect to the related Certificates and the Additional Certificates during any remaining year that such Certificates will be outstanding does not exceed maximum annual debt service with respect to such Certificates prior to such refunding.

(i) There shall have been delivered to the Trustee an endorsement to or reissuance of the title insurance policy delivered under the related Lease Agreement providing that the insured amount is at least equal to the aggregate principal amount of all of the related Certificates and Additional Certificates outstanding upon the execution and delivery of such Additional Certificates;

(j) Upon the execution and delivery of such Additional Certificates, the amount on deposit in the related Reserve Fund shall be equal to the Reserve Requirement, taking into account the execution of the Additional Certificates; and

(k) Such other conditions shall have been satisfied, and such other instruments shall have been duly executed and delivered to the Trustee (with a copy to the Insurer), as the County or the Authority shall have reasonably requested.

Upon delivery to the Trustee of the foregoing instruments, the Trustee shall cause to be executed and delivered Additional Certificates representing the aggregate principal amount specified in such supplemental agreement, and such Additional Certificates shall be equally and ratably secured with all Certificates, including any Additional Certificates, theretofore prepared, executed and delivered, all without preference, priority or distinction (other than with respect to maturity, payment, prepayment or sinking fund payment (if any)) of any one Certificate, including Additional Certificates, over any other;

provided, however, that no provision of the Trust Agreements shall require the County to consent to or otherwise permit the preparation, execution and delivery of Additional Certificates, it being understood and agreed that any such consent or other action of the County to permit the preparation, execution and delivery of Additional Certificates, or lack thereof, shall be in the sole discretion of the County. See Appendix C- "Summary of Principal Legal Documents- Definitions and Summary of Certain Provisions of the Trust Agreements - Additional Certificates."

THE INSURANCE POLICY AND THE INSURER

The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to Appendix E for a specimen of the Insurance Policy.

Payment Pursuant to Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy relating to each Series of Certificates (collectively, the "Insurance Policy") effective as of the date of issuance of the Certificates. Under the terms of the Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the obligations which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee/Paying Agent/Bond Registrar. The insurance will extend for the term of the Certificates and, once issued, cannot be canceled by Ambac Assurance.

The Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Certificates, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Certificates on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Trustee has notice that any payment of principal of or interest on an Certificate which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee , Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Insurance Policy, payment of principal requires surrender of Certificates to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Certificates to be registered in the name of Ambac Assurance to the extent of the payment under the Insurance Policy. Payment of interest pursuant to the Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Certificate, appurtenant coupon, if any, or right to payment of principal or interest on such Certificate and will be fully subrogated to the surrendering Holder's rights to payment.

In the event that Ambac Assurance were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac Assurance") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **$7,728,000,000** (audited) and statutory capital of approximately **$4,490,000,000** (audited) as of **December 31, 2003.** Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Certificates. **No representation is made by Ambac Assurance regarding the federal income tax treatment of payments that are made by Ambac Assurance under the terms of the Insurance Policy due to nonappropriation of funds by the Lessee.**

Ambac Assurance makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "THE INSURANCE POLICY AND THE INSURER".

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in **"Available Information"**.

COUNTY FINANCIAL INFORMATION

The following is a description of the County's budget process, current budget, historical budget information, changes in fund balance, its major revenues and expenditures, indebtedness, investments and certain other financial information relating to the County.

Budget Procedure, Current Budget and Historical Budget Information

The County's Board of Supervisors (the "Board of Supervisors") adopted the final 2003-04 budget on June 18, 2003 (the "2003-04 Budget"). The 2003-04 Budget assumes the timely receipt of certain funds from the State. The County believes that it was reasonable in formulating these assumptions, based on historical information and available information regarding the proposed State budget at the time of the County's budget adoption. While the County's 2003-04 Budget was balanced when adopted, as a result of the 2003-04 State Budget adoption in August 2003, the County projected a $7.8 million shortfall in fiscal year 2003-04. This projected shortfall was due to various factors, including, but not limited to, state program and services reductions, the recall election and health insurance increases. This shortfall was addressed through reducing departmental expenditures and increasing revenue, including the use of an additional $3 million in one-time funding to bring the County's revenue and expenditures back into balance. Further changes to the State budget could occur during the current fiscal year which affect the County's adopted budget, including its appropriations and expenditures. If the State decreases the amount of revenues to be allocated to the County, the County will make commensurate adjustments to its projected revenues and to its appropriations. Notwithstanding the actions taken by the County to provide for contingencies, unforeseen events could cause the County to experience General Fund decreases which would adversely affect the willingness and ability of the County to pay the Lease Payments when due.

The following table presents the County's final adopted budgets for fiscal years 2001-02 through 2003-04, excluding enterprise funds, internal service funds and capital project funds of the County.

COUNTY OF STANISLAUS
GOVERNMENTAL FUNDS BUDGETS

	Final Adopted 2001-02	**Final Adopted 2002-03**	**Final Adopted 2003-04**
REQUIREMENTS:			
General Government	$ 66,071,657	$ 66,988,785	$71,230,781
Public Protection	132,316,969	143,877,879	150,558,173
Public Ways and Facilities	11,482,465	11,973,292	11,990,669
Health and Sanitation	111,866,739	118,646,991	114,292,125
Public Assistance	221,215,370	224,069,899	219,635,415
Education	9,243,459	10,495,433	11,325,259
Recreation and Cultural	4,376,441	6,695,549	6,510,949
Debt Service	10,801,918	9,755,438	10,126,804
Contingencies	3,850,381	2,199,000	3,952,292
Total Requirements	$571,225,399	$594,702,266	$599,622,467
AVAILABLE FUNDS:			
Fund Balance Available	$20,547,522	$ 22,950,521	$25,397,620
Taxes	51,585,998	53,835,596	57,386,900
Licenses, Permits & Franchises	3,459,603	3,346,733	3,877,633
Fines, Forfeits, and Penalties	3,823,380	4,015,277	3,488,435
Use of Money & Property	7,325,961	5,747,262	3,899,560
Intergovernmental Revenue	348,431,866	373,026,068	383,028,756
Charges for Services	73,436,880	71,500,627	73,417,512
Miscellaneous Revenue	5,748,217	4,229,626	4,768,942
Other Financing Sources	56,865,972	56,050,556	44,357,109
Total Available Funds	$571,225,399	$594,702,266	$599,622,467

Source: Stanislaus County Auditor-Controller's Office.

Comparative Change in Fund Balance of the County General Fund

The following table provides a five-year comparison of changes in the County General Fund.

COUNTY OF STANISLAUS GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE FIVE YEAR COMPARISON (Fiscal Year Ending June 30)

	1999	2000	2001	2002[2]	2003[2]
REVENUES:					
Taxes	$ 34,222,018	$ 38,811,885	$ 41,132,858	$ 44,492,505	$ 49,002,479
Licenses, permits and franchises	2,913,834	2,576,174	2,809,828	1,908,253	1,689,813
Fines, forfeitures and penalties	4,125,705	5,798,020	3,302,993	4,849,220	6,266,245
Revenue from use of money and property	6,753,484	4,699,407	7,134,699	5,347,723	2,921,212
Intergovernmental revenues	63,510,883	72,941,422	78,488,915	84,850,425	89,133,714
Charges for services	27,220,294	28,439,163	29,338,926	36,709,290	33,482,876
Miscellaneous	906,478	6,994,203	5,110,357	6,857,275	7,753,913
Total revenues	$139,652,696	$160,260,274	$167,318,576	$185,014,691	$190,250,252
EXPENDITURES:					
Current:					
General	$24,599,316	$32,292,949	$28,341,629	$31,595,607	$30,938,008
Public protection	77,272,265	80,470,001	85,029,279	91,905,961	96,980,176
Public ways and facilities	--	--	--	365,714	--
Health and sanitation	--	--	3,418,283	3,677,421	3,939,628
Public Assistance	385,770	382,412	249,223	297,681	306,900
Education	348,953	334,178	360,299	333,391	330,482
Recreation and cultural services	3,666,991	3,915,225	4,083,646	4,394,982	5,374,777
Debt Service[1]					
Principal	--	--	--	--	--
Interest and fiscal charges	(207,551)	(249,997)	--	--	--
Total Expenditures	$106,065,744	$117,144,768	$121,482,359	$132,570,757	$137,869,971
Excess revenue over expenditures	$33,586,952	$43,115,506	$45,836,217	$52,443,934	$52,380,281
Other financing sources (uses):					
Sale of fixed assets	--	8,220,337	4,348,749	2,205	1,989
Payment to the County Retirement Association	--	--	--		
Operating transfers in	8,145,786	1,564,557	5,163,000	2,177,891	2,614,410
Operating transfers out	(43,526,494)	(42,008,080)	(44,531,525)	(53,105,735)	(50,942,182)
Loan Proceeds	--	--	--	--	--
Capital Lease Proceeds	80,909	53,697	--	--	51,026
Total other financing sources (uses)	(35,299,799)	(32,169,489)	(35,019,176)	(50,925,639)	(48,274,757)
Excess revenues and other sources over (under) expenditures and other uses	(1,712,847)	10,946,017	10,817,041	1,518,295	4,105,524
FUND BALANCE: Beginning of Year as reported at end of prior year	$23,749,726	$21,914,879	$32,507,262	$42,838,591	$55,835,246
Prior period adjustment	--	--	--	11,478,360[3]	--
Residual equity transfer out	(122,000)	(353,634)	(492,550)	--	--
Change in accounting principal	--	--	--	--	--
Fund balance - End of Year	$21,914,879	$ 32,507,262	$ 42,831,753	$ 55,835,246	$ 59,940,770

(1) Debt service payments are made from the County's debt service funds. Such funds are not part of the County's General Fund and, thus, are not reflected in this table.

(2) Governmental Accounting Standards Board ("GASB") Statement No. 34 made changes in the annual financial statements for all governmental agencies in the United States, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted. The financial statements for fiscal year 2001-02 and fiscal year 2002-03 reflect the County's adoption of the provisions of GASB Statement No. 34 as of July 1, 2001. Thus, revenues for fiscal year 2001-02 and fiscal year 2002-03 are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period and expenditures for fiscal year 2001-02 and fiscal year 2002-03 are recognized in the period in which the liability is incurred.

(3) Increase due to fund reclassification resulting from GASB 34.

Source: Stanislaus County Auditor-Controller's Office.

Comparative Balance Sheets of the County

The County's unreserved General Fund balance as of June 30, 2003 was approximately $36.0 million, of which approximately $14.6 million is budgeted to be expended in the 2003-04 fiscal year, $9.8 million is designated for internal debt service reserve for all outstanding financings and approximately $11.6 million is designated for contingencies. The following table presents the County's General Fund Balance Sheets for the past five fiscal years.

COUNTY OF STANISLAUS
GENERAL FUND BALANCE SHEETS
FIVE YEAR COMPARISON
(Fiscal Year Ending June 30)

	1999	2000	2001	2002(2)	2003(2)
ASSETS					
Pooled cash and investments	$ 199,777	$ 1,241,791	$ 11,441,738(1)	$12,747,660	$ 8,228,524
Cash with fiscal agent	--	--	18,795,980(1)	--	30,000,000(1)
Accounts receivable (net of allowance for uncollectables)	5,198,286	5,776,351	6,877,081	13,887,101(3)	14,488,377
Taxes receivable	135,290	135,290	135,290	93,934	105,364
Interest and other receivables	6,216,745	6,878,298	7,331,113	8,107,627	333,786(3)
Due from other funds	--	50,588	--	--	--
Advances to other funds	501,350	501,350	501,350	501,350	501,350
Cash held by others	8,645	8,645	8,645	8,645	8,645
Advances to other Governments	--	--	--	--	11,701,237(3)
Due from other Governments	--	--	--	--	1,729,037
Interfund Receivable	14,833,845	23,499,754	30,974,559	26,866,338	30,267,672
Intergovernmental Receivable	--	--	--	783,313	--
Prepaid items	1,086,168	543,534	--	--	1,240,166
Total assets	$ 28,180,106	$ 38,635,601	$ 76,065,756	$ 62,995,968	$ 98,604,158
LIABILITIES, EQUITY AND OTHER CREDITS					
Liabilities:					
Accounts payable	$3,404,330	$2,544,604	$2,146,192	$2,793,762	$3,296,069
Salaries and benefits payable	2,054,607	2,750,310	3,332,443	3,214,645	3,735,224
Deposits from others	--	--	--	--	--
Due to other funds	--	--	--	--	369,674
Due to other governments	--	31,800	--	17,628	--
Current portion of liability for compensated absences	588,784	584,118	537,861	--	--
Deferred revenues	217,507	217,507	217,507	1,134,687	1,262,421
Tax and Revenue Anticipation Notes	--	--	27,000,000	--	30,000,000
Total liabilities	$ 6,265,228	$ 6,128,339	$ 33,234,003	$ 7,160,722	$ 38,663,388
Equity and Other Credits:					
Fund balances:					
Reserved for encumbrances	$ 3,795,617	$ 4,315,517	$ 8,328,986	$ 6,995,416	$ 8,604,598
Reserved – Other	2,385,805	2,930,539	2,393,105	9,915,419(3)	15,336,708(3)
Unreserved:					
Undesignated	5,932,654	7,425,113	8,961,412	8,874,048(3)	14,597,408(3)
Designated subsequent year expenditure	--	--	--	--	--
Designated for debt service	9,413,386	9,413,386	9,757,589	9,757,589	9,757,589
Designated for contingencies	387,416	8,422,707	13,390,661	20,292,774	11,644,467(3)
Total equity and other credits	$ 21,914,878	$ 32,507,262	$ 42,831,753	$ 55,835,246	$ 59,940,770
Total liabilities, equity and credits	$ 28,180,106	$ 38,635,601	$ 76,065,756	$ 62,995,968	$ 98,604,158

(1) Increase due to funds received by issuance of Tax and Revenue Anticipation Notes.

(2) GASB Statement No. 34 made changes in the annual financial statements for all governmental agencies in the United States, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted. The financial statements for fiscal year 2001-02 and fiscal year 2002-03 reflect the County's adoption of the provisions of GASB Statement No. 34 as of July 1, 2001. Thus, revenues for fiscal year 2001-02 and fiscal year 2002-03 are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period and expenditures for fiscal year 2001-02 and fiscal year 2002-03 are recognized in the period in which the liability is incurred.

(3) Increase or decrease due to reclassification resulting from GASB 34.

Source: Stanislaus County Auditor-Controller's Office.

Major Revenues

The County derives its revenues from a variety of sources including ad valorem property taxes, sales and use taxes, licenses, permits and franchises issued by the County, use of County property and money, aid from other governmental agencies, charges for services provided by the County and other miscellaneous revenues. The approximate percentages of the County's total revenues for general governmental functions, which include the general, special revenue, capital project, debt service and expendable trust funds, as based on the County's actual audited financial statements for fiscal year ended June 30, 2003, were allocated as follows:

Source	Percentage[1]
Taxes	10.97%
License, Permits and Franchises	0.61
Fines, Forfeitures and Penalties	1.44
Use of Money and Property	1.42
Intergovernmental Revenues	68.35
Charges for Current Services	15.10
Miscellaneous Revenues	2.10
Total	**100.00%**

[1] Totals may not add due to rounding.
Source: Stanislaus County Auditor-Controller.

Ad Valorem Property Taxes

Set forth below is certain information regarding assessed valuation and property tax collections. Under California law, for fiscal year 2002-03 these tax collections (allocation percentages for 1% only) were allocated approximately 11.5% to the County, 6.5% to cities, 9.2% to special districts, and 72.8% to school districts within the County.

COUNTY OF STANISLAUS
NET ASSESSED VALUATION*
FISCAL YEARS 1999-00 THROUGH 2003-04

Fiscal Year	Secured	Unsecured	Total
1999-00	$18,138,511,886	$1,145,681,145	$19,284,192,981
2000-01	19,269,396,995	1,206,395,885	20,475,792,880
2001-02	20,778,158,097	1,360,582,907	22,138,741,004
2002-03	22,814,392,776	1,315,257,382	24,129,650,158
2003-04	24,525,756,888	1,448,702,323	25,974,459,211

* Last equalized roll including aircraft. Adjustments and cancellations after publications of the roll are not included.
Source: Stanislaus County Auditor-Controller's Office.

COUNTY OF STANISLAUS
SECURED PROPERTY TAX LEVIES, COLLECTIONS, AND DELINQUENCIES
FISCAL YEARS 1998-99 THROUGH 2002-03

Fiscal Year	Total Secured Levy	Total Secured Collections*	Total Secured Collections As Percent of Tax Levy
1998-99	$180,848,612	$177,586,775	98.20%
1999-00	194,753,889	191,313,706	98.23
2000-01	204,487,493	200,647,912	98.12
2001-02	219,509,435	215,671,967	98.25
2002-03	228,550,924	223,942,564	97.98

* Total does not include redemptions of delinquencies and penalties.
Source: Stanislaus County Auditor-Controller's Office.

Principal Taxpayers

The ten largest taxpayers in the County as shown on the 2003-04 secured tax roll, the amounts of taxes paid by each and the percentage of the County's total property tax revenues attributable to each are shown on the table that follows:

COUNTY OF STANISLAUS
TEN LARGEST TAXPAYERS

Company	Type of Business	Fiscal Year 2003-04 Property Taxes	Percentage of Total Property Taxes
1. Diablo Grande, LTD	Commercial	$ 2,288,161	0.8780%
2. Gallo Glass, Co.	Manufacturing	1,623,961	0.6232
3. SBC California	Utility	1,484,973	0.5698
4. Gallo Winery	Manufacturing	1,264,179	0.4851
5. Doctors Medical Center	Medical	1,236,029	0.4743
6. Macerich Vintage Faire, LTD	Commercial	1,207,723	0.4634
7. Hunt Wesson Foods, Inc.	Manufacturing	1,183,577	0.4542
8. Pacific Gas and Electric	Utility	1,128,178	0.4329
9. Foster Dairy Farms	Manufacturing	994,186	0.3815
10. Del Monte Corporation	Manufacturing	989,669	0.3798
	TOTAL	$13,400,636(1)	5.1422%(1)

(1) Totals may not add due to rounding.
Source: Stanislaus County Auditor-Controller.

Intergovernmental Revenues

Intergovernmental revenues, mostly in the form of State and federal grants and subventions, are the County's largest revenue source, representing about 68.35% of all County revenues in fiscal year 2002-03. A large amount of this revenue source also comes from the State of California in the form of payment for services provided by the County for the State.

County Employees

A summary of the total number of persons employed by the County in each of the last five years follows. Some employees are hired under various federally funded programs.

COUNTY OF STANISLAUS
TOTAL EMPLOYEES
1999 through 2003

June 30	Total
1999	4,290
2000	4,541
2001	4,972
2002	4,710
2003	4,536

Source: Stanislaus County Auditor-Controller's Office.

Labor Relations

The County continues to enjoy positive employer-employee relations. Over 3,750 of the County's employees are represented by eleven different employee organizations, including Operating Engineers Local 3, California Nurses Association, Stanislaus County Employees Association, AFSCME Local 10, Service Employees International Union, Local 535, Scenic Resident Physicians Association, the County Attorneys' Association, and the Deputy Sheriffs Association. The County's labor contracts terminate on various dates between 2004 and 2006 as identified below. One newly formed employee organization, the Stanislaus Sheriff's Management Association, has just begun negotiations with the County and does not yet have a contract.

COUNTY OF STANISLAUS
LABOR CONTRACTS

Employee Organization	Expiration
Committee of Interns & Residents	March 31, 2004
California Nurses Association	August 31, 2004
AFSCME SCEA, Local 10	May 31, 2005
Deputy Sheriff Association	June 1, 2005
SEIU, Local 535	June 30, 2005
District Attorney Investigators	February 28, 2005
Emergency Dispatchers	June 30, 2006
Deputy Probation Officers	July 31, 2006
California Attorneys Association	December 31, 2006

Source: County of Stanislaus.

Retirement Program

General. The County is the major participant in the Stanislaus County Employees Retirement Association ("StanCERA"), a retirement system organized under the 1937 Retirement Act. StanCERA is a cost-sharing multiple-employer public employee retirement system. StanCERA provides retirement and disability benefits, annual cost-of-living adjustment, death benefits and health and welfare insurance for certain retirees and their dependants. One actuarial valuation is performed for the system as a whole and the contribution rate is determined for each participating entity. In addition to the County, the other participating entities in StanCERA are the City of Ceres, and six special districts located in the County that are not governed by the County's Board of Supervisors. The following table sets forth StanCERA's membership as of June 30, 2002 and June 30, 2003.

StanCERA Membership

	2002	2003
Active Members:		
Vested	4,507	4,263
Total Active	4,507	4,263
Inactive Members:		
Deferred and Inter-System Members	648	753
Unclaimed Contributions	97	88
Total Inactive	745	841
Retired Members:		
Service Retirements	1,615	1,701
Disability Retirements	314	331
Survivor Payments	34	35
Total Retired	1,963	2,067
Total Membership	7,215	7,171

Source: Stanislaus County Employees' Retirement Association Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2003 and 2002.

Determination of Retirement Benefits. StanCERA has five tiers of retirement benefits. The benefits known as Tier 1, Tier 2, Tier 4 and Tier 5 vest after five years of credited service, while the benefit known as Tier 3 vest after ten years of credited service. Vested general members with Tier 1, Tier 2, Tier 4 or Tier 5 benefits may retire at age fifty or older with ten or more years of qualifying service or at any age with thirty or more years of qualifying service. Vested safety members with Tier 1, Tier 2, Tier 4 or Tier 5 benefits may retire at age fifty or older with ten years of qualifying service or at any age with twenty or more years of service. All Tier 3 members may retire at age fifty-five with ten or more years of qualifying service.

The final average salary for members with Tier 1, Tier 4 or Tier 5 benefits is the average monthly salary based on the highest twelve consecutive months of earnings. For members with Tier 2 or Tier 3 benefits, final average salary is the average monthly salary based on the highest thirty-six consecutive months of earnings. The retirement benefit for Tier 1, Tier 2, Tier 4 and Tier 5 members includes a post-retirement cost-of-living ("COL") adjustment based upon the Consumer Price Index. COL increases/decreases are limited to a maximum of 3% annually. Total COL decreases cannot exceed the cumulative amount of previous COL increases. Tier 1, Tier 2 Tier 4 and Tier 5 benefit levels also provide death and disability benefits.

As of June 30, 2001, the actuarial valuation of the system reflected increased contributions in retirement benefits for general and safety members within Tier 4 and Tier 5. These increased contributions generally provide a 2% at age 55 retirement benefit for general members and a 3% at age 50 retirement benefit for safety members within these tiers.

Retirement Contributions. StanCERA members participating in Tier 1, Tier 2, Tier 4 and Tier 5 are required by statute to contribute to the pension plan. Members' contribution rates are determined on the basis of the age of the employee at date of entry and the actuarially calculated future benefits. The County is required by statute to contribute the remaining amounts necessary to finance the estimated benefits accrued to its members. Benefits and contribution provisions are established by state law subject to amendment only by a legislative act of the State of California. Alternative benefit and contribution schedules are permissive with approval of the Board of Supervisors.

StanCERA's policies for employer contributions are actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate enough assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. StanCERA also uses the level entry age normal cost method with an Unfunded Actuarial Accrued Liability ("UAAL") to amortize the unfunded liability. As of June 30, 2002, the amortization period for the UAAL was 20 years.

The following table sets forth the schedule of annual employer contributions and percentage contributed for the entire system for Fiscal Years ended June 30, 1998 through June 30, 2003. These contributions include payment of normal cost and UAAL contributions.

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Schedule of Annual Employer Contributions and Percentage Contributed
Fiscal Years 1998-2003

Fiscal Year Ended June 30	Annual Required Contributions (in thousands)(1)	Percentage Contributed
1998	$7,438	100%
1999	5,338	100
2000	5,899	100
2001	7,509	100
2002	11,341	100
2003	16,208	100

(1) For the Fiscal Years 1998-99, 1999-00 and 2000-01, the County's Actuarial Accrued Liability ("AAL") was overfunded. A portion of these excess amounts were used to partially offset normal cost.
Source: Stanislaus County Employees' Retirement Association Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2003 and 2002.

Historical Funding Progress. In September 1995, the County issued pension obligation bonds to satisfy the UAAL for the County, calculated as of September 1995. See "County Financial Information-Indebtedness" herein. The County's funding ratio has been at least 100% since Fiscal Year 1996-97 through Fiscal Year 2001-02. The following table sets forth the funded status of the plan as of the actuarial valuation dates July 1, 1997 through July 1, 2002.

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Funded Status of Plan
(in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded (Overfunded) AAL (B) - (A)	Funded Ratio (A)/(B)	Covered Payroll (C)	((UAAL) as a Percentage of Covered Payroll ((B-A)/C)
7/1/97	$667,248[1]	$512,349	($154,899)	130.2%	$121,275	(127.7)%
7/1/98	590,598	558,462	(32,136)	105.8	120,172	(26.7)
7/1/99	638,180	610,280	(27,900)	104.6	141,799	(19.7)
7/1/00	679,421	666,114	(13,307)	102.0	157,010	(8.5)
7/1/01	784,114	781,495	(2,619)	100.3	174,595	(1.5)
7/1/02	878,821	870,768	(8,053)	100.9	196,471	(4.1)

(1) Includes "Other Designated Reserves" and the liabilities associated with these reserves.
Source: Stanislaus County Employees' Retirement Association Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2003 and 2002.

The actuarial valuation for the period ending as of June 30, 2003 has not been completed by the independent actuary engaged by StanCERA (the "Actuary"). Accordingly, the actuarial accrued liability and UAAL as of June 30, 2003 are not reflected in the table above. The Actuary does not expect a significant decrease in the funding ratio to result from increased retirement benefit contributions or changes in economic assumptions. No guarantee can be made that such expectation will be fulfilled.

Actuarial Assumptions. The Actuary performs an actuarial valuation of the system on an annual basis. Economic assumptions are reviewed annually. Additionally, an experience study is conducted every three years, at which time non-economic assumptions are also reviewed. The most recent triennial experience study was conducted as of June 30, 2000. The most recent actuarial valuation was conducted as of June 30, 2002. Effective as of June 30, 2002, the Board of Retirement adopted an actuarial value of assets method that recognizes the difference between the actual investment return achieved by the investment portfolio of StanCERA and the expected investment return, net of expenses, over a five-year period. The new method is being phased in over a five-year period which started June 30, 2001. As of June 30, 2002, the total deferred asset loss not yet recognized under this method was $102,378,576. The following table sets forth the certain economic actuarial assumptions for fiscal year ended June 30, 2002.

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Actuarial Assumptions

Actuarial Assumption	2002
Investment Rate of Return	8.00%
Inflation	4.50
Projected Salary Increases	5.50
Retirees' Cost-of-Living Adjustments	3.00

Source: Stanislaus County Employees' Retirement Association Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2003 and 2002.

Litigation. In the case of Ventura County Deputy Sheriff's Association v. Board of Retirement of Ventura County Employees' Retirement Association (the "Ventura Case"), the California Supreme Court held that certain payments made by a county in excess of basic salary payments to employees are included in the definition of compensation within the meaning of the Retirement Law. The California Supreme Court did not determine whether its holding in the Ventura Case was to be applied retroactively. Thereafter, additional cases were subsequently filed in many counties, which sought to make the Ventura Case retroactive and to add additional payments made by a county to the definition of compensation (the "Ventura II cases"). All of the Ventura II cases were coordinated statewide and assigned to the San Francisco Superior Court. That court ruled against adding the additional payments to the definition of compensation and determined that the holding in the Ventura Case must be given retroactive effect going back three years. The County estimates that it will have to contribute another $5 to $7 million to the retirement system, but does not expect any adverse effects on the County's ability to pay principal and interest on any of its outstanding obligations as and when due.

Investment Policy. The Board of Retirement has exclusive control of the investment of the employees' retirement fund. Except as otherwise expressly restricted by the State Constitution and by law, the Board of Retirement may in its discretion invest or delegate StanCERA to invest the assets of the fund through the purchase, holding, or sale of any form or type of investment financial instrument, or financial transaction when prudent in the informed opinion of the Board of Retirement. StanCERA has established a series of investment procedures and guidelines. The procedures, grouped together as the "Investment Policy," serve to guide StanCERA's investment program. The Board of Retirement reviews the Investment Policy annually. StanCERA does not currently anticipate any changes in the Investment Policy. The following table sets forth the asset allocations for the investment portfolio for the fiscal year ended June 30, 2003.

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Investment Asset Allocation

Association's Portfolio	Target Allocations	Actual Allocations
Domestic Equities	48.6%	48.5%
International Equities	15.0	15.3
Fixed Income	36.4	33.2
Cash[1]	0.0	3.0
Total	100.0%	100.0%

[1] Excludes Pooled Cash in County Treasury of $5,004,019.
Source: Stanislaus County Employees' Retirement Association Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2003 and 2002.

StanCERA's assets are managed by external professional investment management firms. The Board of Retirement monitors the performance of the managers with the assistance of an external investment consultant. The following table sets forth the total return on investments in the portfolio for the fiscal years ending June 30, 1998 through June 30, 2003.

STANISLAUS COUNTY EMPLOYEES' RETIREMENT ASSOCIATION
Investment Results Based on Fair Value

Year Ended June 30	Annualized Rate of Return
1998	12.66%
1999	8.34
2000	6.34
2001	7.09
2002	(4.23)
2003	4.80

Source: Stanislaus County Employees' Retirement Association Comprehensive Annual Financial Report for the Fiscal Years Ended June 30, 2003 and 2002.

Post-Employment Healthcare Benefits. In addition to providing pension benefits, StanCERA sponsors health insurance for certain retirees and their dependents. Substantially all of the active members may become eligible for those benefits if they reach normal retirement age. Currently, 1,360 retirees are active participants in the health care plans, and they received post-retirement health care benefits in the amount of $6,454,071 for the year ending June 30, 2003. StanCERA sponsored health insurance benefits are not vested and may be discontinued with 90 days notice.

Post-employment health care benefits are funded from excess earnings of StanCERA. The actuarial study dated June 30, 1998 projected the liability level for health care premium to be $93,346,000 based on current utilization. As of June 30, 2003, the funding for post-retiree's health premium reserve is $110,698,145. The County does not contribute towards post-employment other than retirement.

Current financial reporting practices related to postemployment benefits other than pension benefits ("OPEB") for state and local governmental employers generally are based on pay-as-you-go financing approaches. The Governmental Accounting Standards Board has recently proposed to require state and local governments to recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations. StanCERA is currently reviewing this matter, but does not anticipate a material adverse impact on its finances.

Insurance

The County is self-insured for public liability claims on the first $250,000 per occurrence and also is self-insured for the first $500,000 per claim for workers' compensation claims. The County carries liability insurance in excess of the amounts self-insured, up to a maximum of $19,750,000 per occurrence. The County is subject to unlimited liability for workers' compensation claims pursuant to State statutes. Based upon prior claims experience, the County believes that the recorded reserves for recorded liabilities are adequate.

The County carries property insurance in the amount of approximately $385,403,787 subject to adjustment from time to time to reflect additions, deletions and changed valuations with respect to County property, with a $10,000 deductible. This policy is scheduled to expire on March 31, 2005, with the option of annual renewal at competitive market rates. The County has not experienced any material impact on its Budget as a result of recent commercial insurance costs increases.

The County maintains a Healthcare Professional Liability program which consists of a $500,000 self-insured retention per occurrence and excess insurance coverage of $10,000,000 per occurrence. In addition to the self-insured retention, the County is also required to pay all legal defense costs. Coverage and deductibles are subject to change from year to year.

With respect to each of the County's self-insurance programs, the County's policy is to appropriate amounts sufficient to cover actual expenditures and maintain reserves recommended by actuaries.

Indebtedness

General Obligation Debt. The County currently has no general obligation debt outstanding.

Pension Obligation Bonds. On September 25, 1995, the County issued its Taxable Pension Obligation Refunding Bonds, Series 1995 (the "Pension Obligation Bonds") in the aggregate principal amount of $108,970,000 to refund the obligation of the County to StanCERA evidenced by a debenture in favor of StanCERA (the "Debenture"). The Debenture evidenced the County's then-existing obligation with respect to $107,500,000 of the unfunded actuarial accrued liability it owed to StanCERA. The proceeds of the Pension Obligation Bonds were applied to refund the Debenture. The Pension Obligation Bonds are payable from any County funds legally available therefor. Any transfer by the County Auditor of moneys from any fund to pay the principal of and interest on the Pension Obligation Bonds will have the same force and effect as an appropriation by the Board of Supervisors.

The County is required to deposit with the Trustee for the Pension Obligation Bonds an amount equal to debt service on the Pension Obligation Bonds due in each fiscal year by July 31 of such fiscal year. Annual debt service payments on the Pension Obligation Bonds until their maturity in 2013 are approximately $11.4 million per year.

Certificates of Participation. The County currently has outstanding seven certificates of participation financings representing an aggregate principal amount of $91,100,000 as of June 30, 2003. Total debt service with respect to the County's outstanding certificates of participation is $10,269,620 for fiscal year 2002-03.

Capital Leases. The County leases data processing and hospital equipment under certain lease obligations accounted for as capital leases. Included in general fixed assets and property and equipment as of June 30, 2003 were the following amounts applicable to capital leases:

	General Fixed Assets Account Group	Enterprise Funds	Internal Service Funds
Building	$ 216,441	--	--
Equipment	2,009,164	$1,905,318	$711,140
Less: Accumulated depreciation	(542,752)	(797,296)	(298,374)
	$1,682,853	$1,108,022	$412,766

The following is a yearly schedule of future minimum lease payments under capital leases with original terms of one year or more, together with the present value of the future minimum lease payments as of June 30, 2003.

Year Ending June 30	General Long-Term Debts Account Group	Enterprise Funds	Internal Service Funds
2004	$407,652	$ 431,447	$ 134,800
2005	248,839	318,436	134,800
2006	105,657	160,834	36,765
2007	56,067	160,834	--
2008	5,553	40,209	--
Total minimum lease payments	823,768	1,111,760	$ 306,365
Less: amount representing interest	(58,898)	(81,500)	(16,925)
Present value of minimum lease payments	764,870	1,030,260	289,440
Less: current portion of capital lease	(372,081)	(388,713)	(121,896)
Capital lease obligation	$392,789	$ 641,547	$ 167,544

Source: County of Stanislaus Auditor-Controller's Office.

Operating Leases. The County is committed under various operating leases for building and office space and business and data processing equipment. Operating leases do not give rise to property rights or lease obligations and, therefore, the results of the lease agreements are not reflected in the County's account groups or proprietary funds.

Aggregate rental expense for all operating leases was approximately $3,879,231 for all fund types for the year ended June 30, 2003. The following is a schedule by years of future minimum rental payments required under operating leases entered into by the County that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2003:

Year Ending June 30	Amount
2004	$3,388,438
2005	2,856,112
2006	2,093,668
2007	1,551,512
2008	1,330,577
2009-2013	7,630,674
Total minimum lease payments	$18,850,981

Source: County of Stanislaus Auditor-Controller's Office.

Short-Term Debt: The County currently has outstanding an aggregate principal amount of $45,000,000 2003-04 Tax and Revenue Anticipation Notes, which are due on October 14, 2004. All amounts required to be set-aside as security for these notes have been made to date.

Estimated Direct and Overlapping Bonded Debt. The estimated direct and overlapping bonded debt of the County as of December 19, 2003 is as follows:

Estimated Direct and Overlapping Bonded Debt
(as of December 19, 2003)

STANISLAUS COUNTY

2003-04 Assessed Valuation:	$26,882,716,933	(includes unitary utility valuation)
Redevelopment Incremental Valuation:	1,699,658,877	
Adjusted Assessed Valuation:	$25,183,058,056	

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable [1]	Debt 12/1/03
Modesto High School District	100. %	$ 82,841,180
Turlock Joint Union High School District	98.211	31,204,812
Ceres Unified School District	100.	24,999,806
Newman-Crows Landing Unified School District	100.	11,329,890
Patterson Joint Unified School District	98.736	18,332,218
Modesto City School District	100.	28,873,337
Sylvan School District	100.	10,640,000
Other School Districts	Various	36,487,888
Modesto Irrigation District	100.	1,930,000
Turlock Irrigation District	88.411	2,581,601
Newman Drainage District	100.	415,000
Empire Union School District Community Facilities District No. 87-1	100.	20,784,661
City Community Facilities Districts	100.	40,070,000
Salida Area Community Facilities District No. 1988-1	100.	36,600,000
Western Hills Water District Community Facilities District No. 1	100.	27,650,000
City 1915 Act Bonds	100.	16,652,063
TOTAL GROSS OVERLAPPING TAX AND ASSESSMENT DEBT		$391,392,456
Less: Modesto Irrigation District (100% self-supporting)		1,930,000
Turlock Irrigation District (100% self-supporting)		2,581,601
TOTAL NET OVERLAPPING TAX AND ASSESSMENT DEBT		$386,880,855

DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT:		
Stanislaus County Certificates of Participation	100. %	$ 90,220,000
Stanislaus County Pension Obligations	100.	81,685,000
Stanislaus County Office of Education Certificates of Participation	100.	6,030,000
Yosemite Community College District Certificates of Participation	72.686	11,971,384
Modesto High School and City School District Certificates of Participation	100.	19,940,000
Salida Union School District Certificates of Participation	100.	9,370,000
Other School District Certificates of Participation	100.	19,835,940
City of Modesto General Fund Obligations	100.	92,905,000
City of Newman Certificates of Participation	100.	3,090,000
Other City Certificates of Participation	100.	2,347,456
Oakdale Irrigation District Certificates of Participation	95.080	946,046
Keyes Fire Protection District Certificates of Participation	100.	293,000
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$338,633,826
Less: Salida Union School District self-supporting obligations from AIG investment agreement		2,000,000
City of Newman Wastewater Certificates of Participation (100% self-supporting)		2,905,000
Oakdale Irrigation District Certificates of Participation (100% self-supporting)		946,046
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND OBLIGATION DEBT		$332,782,780
GROSS COMBINED TOTAL DEBT		$730,026,282[2]
NET COMBINED TOTAL DEBT		$719,663,635

(1) Based on 2002-03 ratios.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations.

Ratios to 2003-04 Assessed Valuation:
Total Gross Overlapping Tax and Assessment Debt 1.46%
Total Net Overlapping Tax and Assessment Debt 1.44%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($171,905,000) 0.68%

Gross Combined Total Debt 2.90%
Net Combined Total Debt 2.86%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/03: $0

Source: California Municipal Statistics, Inc.

Stanislaus County Investment Pool

The Stanislaus County Treasurer-Tax Collector is responsible for the investment of all moneys deposited into the County treasury. Amounts held in the County treasury are invested in the Pooled Investment Fund of the County (the "County Pool"), which invests in securities according to the Investment Policy of the County Treasurer-Tax Collector (the "County Investment Policy") as authorized by various sections of the Government Code of California (the "California Government Code"). From time to time bills which would modify the currently authorized investments and place restrictions on the ability of local agencies to invest in various securities are proposed in the State Legislature. Therefore, there can be no assurances that the current investments in the County Pool will not vary significantly from the investments described herein or as may be authorized in the future by the California Government Code.

Investments of the County Pool are placed in those securities authorized by various sections of the California Government Code, which, subject to the restrictions below, include obligations of the United States Treasury, Agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), and asset backed (including mortgage related) and pass-through securities. California Government Code Section 53601 sets forth the authorized investments that may be made with funds in a county treasury and restricts investments in repurchase and reverse repurchase agreements and prohibits investments in inverse floaters, range notes, interest only strips, or any security that could result in a negative yield if held to maturity. Also, the Treasurer may not invest the proceeds of a short-term borrowing for a term that exceeds the repayment date of the borrowing. Generally, investments in repurchase agreements cannot exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreements generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base value is defined in the California Government Code as the total cash balance excluding any amounts borrowed (*i.e.*, amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods). Section 53601 also requires that any investment security be purchased in book-entry form or, if in certificated form, be delivered to the county treasurer or a third party custodian.

The County Investment Policy sets forth the manner in which funds in the County Pool are to be invested. The duty of the Stanislaus County Treasurer is to safeguard all public funds which by law are managed by the Treasurer. The County Pool must maintain sufficient cash to meet the disbursement needs of all participating agency depositors. Prudence must be used in obtaining a competitive yield while maintaining the value and availability of the cash involved. Under the County Investment Policy, investments may be made only in securities with maturity dates which are 5 years or less from the trade date. No more than 40% of the County Pool may be invested in bankers acceptances and no more than 20% of the portfolio may be invested in any one commercial bank. No more than 15% of the County Pool may be invested in commercial paper unless the dollar weighted average maturity is 31 days or less, in which case the total invested may be 30% of the County Pool. No more than 30% of the County Pool may be invested in negotiable certificates of deposit with no more than 5% invested with any one bank. Repurchase agreements may not be made for a period longer than 90 days. No more than 30% of the County Pool may be invested in medium term notes with no more than 5% invested in any one corporation. No more than 15% of the County Pool may be invested in mutual funds with no more than 5% invested with any single mutual fund. The Treasurer is also authorized to invest in securities issued by the United States Treasury and various federal agencies, as well as local bank certificates of deposit which are 110% collateralized by government securities with no more than 5% invested with any one bank. Notwithstanding the authority granted by the California Government Code, no other type of investment by the Treasurer is currently authorized by the County Investment Policy. The County does not own, and has never invested in, reverse repurchase agreements, collateralized mortgage obligations or "inverse floaters." In addition, the County has not borrowed any funds or pledged any securities in the County Pool for the purpose of borrowing funds to invest the proceeds thereof into the County Pool. The County Investment Policy prohibits the County from engaging in lending of securities and investing in reverse repurchase agreements, collateralized mortgage obligations or "inverse floaters."

The County Investment Policy may be changed with the consent of the Treasurer-Tax Collector and the Board of Supervisors (subject to the State law provisions relating to authorized investments). There can be no assurance that State law and/or the County Investment Policy will not be amended in the future to allow for investments which are currently not permitted under such State law or the County Investment Policy, or that the objectives of the County with respect to investments will not change. All changes to the County Investment Policy must be reviewed and approved by the Board of Supervisors during a regularly scheduled public meeting.

The County Investment Policy allows for purchase of a variety of securities with limitations as to exposure, maturity and rating, varying with each security type. The composition of the portfolio will change over time as old investments mature, or are sold, and as new investments are made. As reflected in the table below, the market value of certain types of investments may be less than the County's net book value for those investments. The County, in accordance with GASB regulations, will realize market value fluctuations for the investments in the County Pool on its income statements. However, the County does not anticipate that it will ultimately realize any losses with respect to such investments since the County intends to hold such investments until their maturity.

The County Pool represents moneys entrusted to the County Treasurer-Tax Collector which are funded by the County of Stanislaus, schools and special districts within the County. State law requires that all moneys of the County, school districts, and certain special districts be held by the County Treasurer-Tax Collector. For fiscal year 2002-03, approximately 45.9% of the amounts in the County Pool at any time, exclusive of the amounts resulting from County short-term borrowing, were attributable to the County Funds. The remaining balance of the County Pool was attributable to depositors such as school districts and certain special districts, which are required by law to make deposits in the County Pool. School districts made up approximately 51.8% and special districts made up approximately 2.2% of the amounts on deposit in the County Pool. Less than 4.0% of the amounts deposited in the County

Pool were attributable to depositors who are not required to but choose to invest in the County Pool. Moneys deposited in the County Pool by the participants represent an individual interest in all assets and investments in the County Pool based upon the amount deposited. Unexpected withdrawals are considered unlikely by the County based upon the historical withdrawal patterns of the mandatory participants which comprise the entire County Pool. All interest income, gains and losses are distributed quarterly to the participants based upon their average daily balance. As of December 31, 2003, the market value of the County Pool was 100.39% of the book value of the investments held therein. Liquidity in the portfolio, consisting of next business day maturities, was $182.5 million or 28.9% of the portfolio, as of December 31, 2003.

Generally, it is the view of the County Treasurer that losses on investments held in the County Pool are acceptable on a sale of securities prior to maturity and should be taken if the reinvestment of sale proceeds will enhance the over-all yield of the County Pool over the life of the new security, or there is a potential or imminent risk of principal loss due to a change in the credit-worthiness of the issuer of the security or other factor jeopardizing the propriety or safety and liquidity of public funds.

The County believes that the County Pool is prudently invested and that participants' investments therein are scheduled to mature at the times and in the amounts that are necessary to meet expenditures and other scheduled withdrawals. As of December 31, 2003, the County Pool's portfolio was comprised of securities with a weighted average maturity of 233 days. The following table reflects various information with respect to maturities of investments in the County Pool as of December 31, 2003. As described above, a wide range of investments are authorized under State law. Although moneys in the County Pool are invested only in securities authorized by the County Investment Policy, moneys of the County deposited into State of California Local Agency Investment Fund (L.A.I.F.) and mutual funds are invested in accordance with their respective investment policies, which investment policies may provide for investment in securities not authorized for investment under the County Investment Policy. For additional information concerning the County's financial information and the County Pool, see Appendix B — "COUNTY OF STANISLAUS AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003."

STANISLAUS COUNTY
INVESTMENT MATURITIES SUMMARY
(as of December 31, 2003)

Type of Investment	Dollar Cost	MarketValue	Percent of Portfolio	Avg. Days to Maturity
Certificates of Deposit	$ 28,300,000.00	$ 28,300,000.00	4.48%	200
Negotiable Certificates of Deposit	25,001,749.96	25,000,000.00	3.96	167
Commercial Paper	54,926,318.05	54,977,600.00	8.70	15
Bankers Acceptances	4,975,311.11	4,988,350.00	0.79	78
Managed Funds	88,193,427.41	88,211,171.78	13.97	1
Agencies – Coupon	63,317,704.13	64,284,848.28	10.03	597
Agencies – Discount	39,621,267.21	39,785,000.00	6.27	172
Treasuries – Coupon	111,070,749.52	111,174,806.47	17.59	299
Treasuries – Discount	14,924,798.62	14,974,850.00	2.36	68
Repurchase Agreements	132,361,964.18	132,361,964.18	20.96	2
Medium Term Notes	68,770,280.06	69,941,508.44	10.89	830
Total Investments	$ 631,463,570.25	$634,000,099.15	100.00%	233
Cash/Bank Balances	16,126,745.03	16,126,745.03		
TOTAL	$ 647,590,315.28	$650,126,844.18		

Source: Stanislaus County Treasurer-Tax Collector.

Teeter Plan

The County has adopted the Teeter Plan which is an alternate procedure authorized in Chapter 3, Part 8, Division 1 of the Revenue and Taxation Code of the State of California (comprising Sections 4701 through 4717, inclusive) (the "Law"), commonly referred to as the "Teeter Plan", for distribution of certain property tax levies on the secured roll. The Law has authorized the use of the Teeter Plan for over 40 years; however, until fiscal year 1993-94, it had been implemented in only five counties in the State.

Pursuant to the Law, the County adopted Resolution No. 93-987 on October 5, 1993 adopting the Teeter Plan. Generally, the Teeter Plan provides for a tax distribution procedure by which secured roll taxes are distributed to taxing agencies within the County included in the Teeter Plan on the basis of the tax levy, rather than on the basis of actual tax collections. The County then receives all future delinquent tax payments, penalties and interest, and a complex tax redemption distribution system for all participating taxing agencies is avoided. Although assessments may also be made subject to the Teeter Plan, the County elected to advance only the property tax portion of the levy. The amounts advanced to the participating agencies for prior years' delinquent secured property taxes were internally funded. Within the County, all of the taxing agencies are participating in the Teeter Plan.

In addition, pursuant to the Law, the County is required to establish a tax losses reserve fund to cover losses which may occur in the amount of tax liens as a result of special sales of tax-defaulted property. Once the tax losses reserve fund reaches a level of twenty-five percent of the total delinquent taxes, any additional penalties and interest that otherwise would be credited to the tax losses reserve fund are credited to the County General Fund.

The County has covenanted that, except for the purpose of securing borrowings, the proceeds of which would be deposited to the General Fund, the County will take no action to sell, assign or otherwise encumber the future delinquent tax payments, penalties and interest receivable by the County under the Teeter Plan.

Impact of State Budget on County

The County was required to adopt its budget for fiscal year 2003-04 by June 30, 2003. The 2003-04 Budget, adopted on June 18, 2003, was balanced based upon information available as of that date. The 2003-04 Budget was intended to maintain essential County services and avoid reductions-in-force where possible. The budgeted expenditures in the 2003-04 Budget are $751,363,985, which is a 1% increase over last fiscal year's budget. The 2003-04 Budget budgeted expenditures are slightly higher than the previous fiscal year due to increased employee-related costs and some one-time costs. These cost increases were projected to be offset by new revenue.

While the County's 2003-04 Budget was balanced when adopted in June 2003, as a result of the 2003-04 State Budget adoption in August 2003, the County projected a $7.8 million shortfall in fiscal year 2003-04. This projected shortfall was due to various factors, including, but not limited to, state program and services reductions, the recall election and health insurance increases. This shortfall was addressed through reducing departmental expenditures and increasing revenue, including the use of an additional $3 million in one-time funding to bring the County's revenue and expenditures back into balance.

Further, the County has identified the following significant impacts to the County's projected fiscal status based on the 2004-05 Proposed Governor's Budget (see "Supplemental Financial Information - Proposed Governor's Budget for Fiscal Year 2004-05" herein):

1. The County presently anticipates the receipt of approximately $33 million in Vehicle License Fee ("VLF") payments in Fiscal Year 2004-05 in connection with the proposed full reimbursement to local governments for the VLF offset program.

2. The County anticipates a reduction in revenues of approximately $8.3 million in connection with the proposed shift of local government property taxes to the Educational Revenue Augmentation Fund (the "ERAF").

3. The County presently anticipates a reduction in revenues of approximately $670,000 in Fiscal Year 2004-05 as of October 1, 2004 and approximately $890,000 annually thereafter in connection with the proposed elimination of Temporary Assistance to Needy Families ("TANF") funds.

4. The County anticipates an annual reduction in revenues of approximately $733,000 relating the elimination of State reimbursement of jail booking fees to counties.

The County continues to review the impact of the 2004-05 Proposed Governor's Budget on the County. The County cannot predict the ultimate impact of the 2004-05 Proposed Governor's Budget on its finances and operations, particularly with respect to health and human social services.

SUPPLEMENTAL FINANCIAL INFORMATION

The following information concerning the State of California budgets has been obtained from publicly available information that the County believes to be reliable; however, the County takes no responsibility as to the accuracy or completeness thereof and has not independently verified such information.

State Budget for Fiscal Year 2003-04

On August 2, 2003, then-Governor Davis signed the 2003-04 Budget Act (the "2003-04 Budget Act") into law. The 2003-04 Budget Act projected that State General Fund (the "State General Fund") revenues would increase from $70.9 billion for Fiscal Year 2002-03, excluding the proceeds of any fiscal recovery bonds, to $72.8 billion in Fiscal Year 2003-04, an increase of 2.8 percent. State General Fund expenditures were projected to decrease from $78.1 billion in Fiscal Year 2002-03 to $70.8 billion in Fiscal Year 2003-04, or 10 percent. A significant portion of this 10 percent decrease was attributable to the Vehicle License Fee ("VLF") increase which eliminated the need for the State to backfill local governments, new federal funds, borrowings to cover the State's 2003-04 pension obligations, and the Medi-Cal accounting shift from an accrual to a cash basis.

The 2003-04 Budget Act contained various reductions in local revenues provided by the State, including a reduction in VLF revenues of approximately $825 million during the period between the elimination of the State's VLF backfill and the increase in the VLF rate on October 1, 2003. The 2003-04 Budget Act assumed that the VLF rate would increase from the rate of 0.65 percent to 2.0 percent beginning October 1, 2003. During the approximately 90 day period between the date when the State backfill ended on July 1, 2003, and the date when the VLF rate increased, local governments would only receive revenues based on the 0.65 percent VLF rate. The 2003-04 Budget Act and related legislation required the State to repay the $825 million VLF "gap" loss to local governments no later than August 15, 2006. Governor Schwarzenegger subsequently rescinded the VLF rate increase retroactive to October 1, 2003. See "Proposed Governor's Budget for Fiscal Year 2004-05" below.

The 2003-04 Budget Act identified a budget shortfall of $38.2 billion between expenditures and revenues and attempted to close this shortfall through a combination of program savings, borrowing, new revenues, funding shifts, and deferrals. Program savings were primarily achieved in the 2003-04 Budget Act through significant reductions in spending for certain programs. Some reductions in program spending were to be offset by higher fees. The year-end reserve was projected to be approximately $2 billion and reflected the issuance of $10.7 billion in fiscal recovery bonds to eliminate the Fiscal Year 2002-03 deficit and the issuance of a second series of tobacco securitization bonds. Governor Schwarzenegger subsequently proposed, and the State Legislature approved, placing a bond measure on the March 2, 2004 ballot authorizing the issuance of up to $15 billion of economic recovery bonds to replace the fiscal recovery bonds. The voters approved this measure on March 2, 2004. See "Proposed Governor's Budget for Fiscal Year 2004-05" below.

Certain of the features of 2003-04 Budget Act affecting counties included the following:

1. The Senate budget package required redevelopment agencies to shift $250 million of redevelopment agency funds to the Educational Revenue Augmentation Fund (the "ERAF") in Fiscal Year 2003-04. The Assembly version of the budget also required such a one-time shift to the ERAF but set the amount at $135 million.

2. The 2003-04 Budget Act repealed six mandates and suspended local government requirements to implement 37 other mandates in Fiscal Year 2003-04. The 2003-04 Budget Act deferred (to an unspecified date) State funding to reimburse local agencies for: (1) implementing 40 active mandates in Fiscal Year 2003-04 (about $200 million) and (2) unpaid prior-year mandate claims (about $700 million).

3. The 2003-04 Budget Act reduced funding for the Citizens' Option for Public Safety and Juvenile Crime Prevention Grants program by $32.6 million (leaving $200 million to be divided equally between the two programs).

4. The Senate budget package eliminated the $38 million continuous appropriation for local government booking fees and county authority to charge local agencies fees for booking people into county jail. The Assembly budget package, in contrast, maintained the continuous appropriation and county fee authority.

Proposed Governor's Budget for Fiscal Year 2004-05

On January 9, 2004, Governor Schwarzenegger (the "Governor") released his proposed budget for Fiscal Year 2004-05 (the "2004-05 Proposed Governor's Budget"). The 2004-05 Proposed Governor's Budget projects the State General Fund revenues for Fiscal Year 2004-05 to be $76.4 billion, an increase over the current fiscal year of 2.4 percent, and State General Fund expenditures to be $76.1 billion, a decrease over the current fiscal year of 2.4 percent.

The revenue increases forecasted by the 2004-05 Proposed Governor's Budget include significant gains in the personal income tax, sales tax and corporation tax. Personal income tax revenues are forecasted to be $35.1 billion in Fiscal Year 2003-04 and $38 billion in Fiscal Year 2004-05. This forecast assumes that moderate growth will resume in Fiscal Year 2003-04. Sales and use tax revenue is forecasted at $23.7 billion in Fiscal Year 2003-04 and $25 billion in Fiscal Year 2004-05. This forecast assumes a 2.3 percent increase in taxable sales for Fiscal Year 2003-04 and that taxable sales increase at a faster rate in Fiscal Year 2004-05 and Fiscal Year 2005-06 due to the improving economy, increasing by 5.8 percent and 5.4 percent, respectively. Corporate tax revenues are expected to total approximately $7.5 billion in Fiscal Year 2003-04 and approximately $7.6 billion in 2004-05. The 2004-05 Proposed Governor's Budget also forecasts $500 million in additional revenue from a 25 percent share of tribal gaming operations annual income.

Certain of the features of the 2004-05 Proposed Governor's Budget affecting counties include the following:

1. The 2004-05 Proposed Governor's Budget includes provisions for full reimbursement to local governments, including counties, for the VLF offset program in Fiscal Year 2004-05, resulting in payments estimated at $4.1 billion in such fiscal year.

2. The 2004-05 Proposed Governor's Budget includes a $1.3 billion shift of local property taxes that would have been payable to certain local governments, including counties, to the ERAF, resulting in a decrease in payments of such taxes to such local governments of approximately 10 percent.

3. The 2004-05 Proposed Governor's Budget includes a provision to reduce and, by October 2004, eliminate federal Temporary Assistance to Needy Families ("TANF") funds used to support counties' juvenile probation services, including prevention, intervention, supervision, treatment, and incarceration programs for at-risk youth and juvenile offenders.

4. The 2004-05 Proposed Governor's Budget includes a provision to eliminate State reimbursement of jail booking fees that would have been payable to counties.

5. The 2004-05 Proposed Governor's Budget proposes major reform in the health and human services area, including, with respect to the Medi-Cal program, realigning eligibility standards, requiring co-payments, implementing a tiered benefit structure and conforming basic optional benefits to those offered under private plans, and with respect to the CalWORKs program, increasing work incentives and reducing services and assistance payments thereunder. The 2004-05 Proposed Governor's Budget proposes budgeting $31.2 billion for the Medi-Cal program in Fiscal Year 2004-05. The State General Fund increase of 16.2 percent reflects the costs of using one-time savings in Fiscal Year 2003-04

because of a change in the Medi-Cal program from accrual accounting to cash accounting and Federal Medical Assistance Program amounts received in Fiscal Year 2003-04.

6. The 2004-05 Proposed Governor's Budget assumes implementation of the 2003-04 Mid-Year Spending Reduction Proposals to achieve State General Fund savings of $206.9 million in Fiscal Year 2003-04 and $479.4 million in Fiscal Year 2004-05.

The 2004-05 Proposed Governor's Budget identifies an existing deficit of more than $22 billion, which includes an accumulated deficit through Fiscal Year 2002-03 of $9.3 billion and a pre-existing operating deficit in Fiscal Year 2003-04 of $3.0 billion. The 2004-05 Proposed Governor's Budget plan includes the issuance of up to $15 billion in Economic Recovery Bonds (the "Economic Recovery Bonds"), voter approved on March 2, 2004, to finance the State General Fund reserve and other State obligations incurred prior to June 30, 2004. In connection therewith, the 2004-05 Proposed Governor's Budget also includes a provision for the creation of a deficit recovery fund to finance what would otherwise be the State General Fund's costs of the existing debt. The amount of Economic Recovery Bond proceeds received but not used to finance the accumulated budget deficit through Fiscal Year 2002-03 will be transferred into this new fund. The new fund is to be used in Fiscal Year 2004-05 to finance outstanding State obligations due in Fiscal Year 2003-04 and Fiscal Year 2004-05. The Economic Recovery Bonds will be a general obligation of the State and secured by a pledge of revenues from an increase in the State's share of the sales and use tax of one-quarter cent starting July 1, 2004. Such taxes would revert to their current levels when the bonds are repaid. The portion of sales and use tax that otherwise would have been allocated to local governments, including the County, would be decreased by a commensurate amount. Commencing in Fiscal Year 2004-05, local government's share of local property tax revenues would be restored by an amount equal to the one-quarter cent reduction in the local sales and use tax.

LAO Reports

On February 18, 2004, the State Legislative Analyst Office ("LAO") released an analysis of the 2004-05 Proposed Governor's Budget (the "LAO Analysis"), which is available on the LAO website at www.lao.ca.gov. Information on this website is not incorporated herein by reference. The LAO Analysis generally agrees with the Governor's economic forecast with respect to improving growth in personal income and employment in the State. While the 2004-05 Proposed Governor's Budget projects a cumulative surplus of $635 million for Fiscal Year 2003-04 and Fiscal Year 2004-05, which assumed voter approval of the Economic Recovery Bonds at the March 2, 2004 election, the LAO Analysis estimates a deficit of $783 million for the same period. The difference reflects the LAO's forecast of lower revenues and higher costs to the State in Fiscal Year 2003-04 and Fiscal Year 2004-05. However, the LAO cautions that some of the solutions (including savings realized from the issuance of pension obligation bonds, Medi-Cal rate reduction and the renegotiation of tribal gaming compacts) in the Governor's proposal may not be realized and could increase the budget shortfall for Fiscal Year 2004-05 to about $4 billion. The LAO Analysis states that a $7 billion ongoing gap between revenues and expenditures would occur in Fiscal Year 2005-06 and continue in subsequent years, absent further corrective action.

Continuing State Budget Shortfall

The County cannot predict whether the State will continue to encounter budgetary problems in this or in any future fiscal years, and if it were to do so, it is unknown what measures would be taken by the State to balance its budget, as required by law. Accordingly, the County cannot predict the final outcome of future State budget negotiations, the impact that such budgets will have on its finances and operations or what actions will be taken in the future by the State Legislature and Governor to deal with changing State revenues and expenditures. Current and future State budgets will be affected by national and State economic conditions and other factors, including the current economic downturn, over which the County has no control. See "County Financial Information- Impact of State Budget on County" herein.

LIMITATIONS ON TAX REVENUES

Article XIII A

On June 6, 1978, California voters approved an amendment (commonly known as both Proposition 13 and the Jarvis-Gann Initiative) to the California Constitution. This amendment, which added Article XIII A to the California Constitution, among other things affects the valuation of real property for the purpose of taxation in that it defines the full cash property 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 newly constructed, or when a change in ownership has occurred after the 1975 assessment." The full cash value may be adjusted annually to reflect inflation at a rate not to exceed 2% per year, or a reduction in the consumer price index or comparable local data at a rate not to exceed 2% per year, or reduced in the event of declining property value caused by damage, destruction or other factors including a general economic downturn. The amendment further limits the amount of any *ad valorem* tax on real property to one percent of the full cash value except that additional taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978, and bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the votes cast by the voters voting on the proposition.

Legislation enacted by the California Legislature to implement Article XIII A provides that all taxable property is shown at full assessed value as described above. In conformity with this procedure, all taxable property value included in this Official Statement (except as noted) is shown at 100% of assessed value and all general tax rates reflect the $1 per $100 of taxable value. Tax rates for voter approved bonded indebtedness and pension liability are also applied to 100% of assessed value.

Future assessed valuation growth allowed under Article XIII A (new construction, change of ownership, 2% annual value growth) will be allocated on the basis of "situs" among the jurisdictions that serve the tax rate area within which the growth occurs. Local agencies and school districts will share the growth of "base" revenue from the tax rate area. Each year's growth allocation becomes part of each agency's allocation the following year. The County is unable to predict the nature or magnitude of future revenue sources that may be provided by the State of California (the "State") to replace lost property tax revenues. Article XIII A effectively prohibits the levying of any other *ad valorem* property tax above the 1% limit except for taxes to support indebtedness approved by the voters as described above.

Article XIII A Litigation

In June 1978, Article XIII A of the California Constitution was amended by Proposition 13 to, among other things, limit a County assessor's ability to annually adjust for inflation to 2% per year. See "Limitations on Tax Revenues-Article XIII A" herein. On December 27, 2001, an Orange County Superior Court ruled in County of Orange v. Orange County Assessment Appeals Board No. 3 (the "Orange County Litigation") that the Orange County Assessor raised a homeowner's assessment in violation of Article XIII A by increasing the assessment on the homeowner's property by more than 2% per year, when the price appreciation in prior years was less than 2% per year. Orange County raised assessments by more than 2% in a single year if the value of a property remained flat after a taxpayer purchased the property, and then increased by more than 2% in a subsequent year. On December 12, 2002, the Superior Court certified the lawsuit as a class action. On January 30, 2003, the Superior Court held a hearing and ruled that the Orange County Tax Collector must notify the affected taxpayers of their right to file tax refund claims. Implementation of the motion is pending further review by the appellate courts on the entire case. On April 18, 2003, the Superior Court entered a Final Judgment which held that the current statewide practice of restoring property assessment, after a prior assessment reduction due to an economic downturn, based on the market value was invalid. On June 12, 2003, an appeal was filed with the Court of Appeal, Fourth District, Division Three. Oral arguments were conducted before the Court of Appeal on January 7, 2004 and a decision is expected by April 4, 2004.

The County cannot predict the outcome of the Orange County Litigation. Presently, the Court's ruling in the Orange County Litigation applies only to the assessments involved in the case. However, if the Court's ruling is upheld on appeal and applied generally the loss of tax revenues to communities throughout the State could be significant. The ruling creates the possibility that all taxing agencies, including the County, would be required to give refunds of the portion of tax collections which resulted from increases in assessed valuations at a rate greater than 2% per annum. The County has not computed the amount of taxes that might be subject to refund if the ruling in the Orange County Litigation is upheld on appeal or what amount its tax collections would be lowered in future fiscal years, but does not believe that the outcome of the Orange County Litigation will adversely affect its ability to pay any of its obligations, including the Lease Payments, when due.

Article XIII B

On November 6, 1979, California voters approved Proposition 4, which added Article XIII B to the California Constitution. In 1990, the voters through their approval of Proposition 111 amended Article XIII B. Article XIII B of the California Constitution limits the annual appropriations of the State and any city, county, school district, authority or other political subdivision of the State to the level of appropriations for the prior fiscal year, as adjusted annually for changes in the cost of living, population and services rendered by the governmental entity. The "base year" for establishing such appropriation limit is the 1978-79 fiscal year. Increases in appropriations by a governmental entity are also permitted (i) if financial responsibility for providing services is transferred to the governmental entity, or (ii) for emergencies so long as the appropriations limits for the three years following the emergency are reduced to prevent any aggregate increase above the Constitutional limit. Decreases are required where responsibility for providing services is transferred from the government entity.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds of taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the Federal government, appropriations for qualified out lay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (i) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (ii) the investment of tax revenues and (iii) certain State subventions received by local governments. Article XIII B includes a requirement that if an entity's revenues in any year exceed the amount permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two fiscal years.

As amended in 1990, the appropriations limit for the County in each year is based on the limit for the prior year, adjusted annually for changes in the costs of living and changes in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in the cost of living is, at the County's option, either (i) the percentage change in California per capita personal income, or (ii) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The measurement of change in population is a blended average of Statewide overall population growth, and change in attendance at local school and community college ("K-14") districts.

As amended by Proposition 111, the appropriations limit is tested over consecutive two-year periods. Any excess of the aggregate "proceeds of taxes" received by the County over such two-year period above the combined appropriations limits for those two years is to be returned to taxpayers by reductions in tax rates or fee schedules over the subsequent two years.

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and Constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four years.

For fiscal year 2003-04, the County adopted the estimated annual appropriation limit in the amount of $210,498,839. The limitation will apply only to proceeds of taxes and therefore will not apply to service fees and charges, investment earnings on non-proceeds of taxes, fines, and revenue from the sale of property and taxes received from the State and Federal governments that are tied to special programs. Based on the County's 2002-03 budget, the funds subject to the Gann appropriations limit (total General Operating Budget minus non-proceeds of taxes, debt service, and the 1999-00 carry over) were approximately $111,103,447.

Proposition 46

On June 3, 1986, California voters approved Proposition 46, which added an additional exemption to the 1% tax limitation imposed by Article XIII A. Under this amendment to Article XIII A, local governments and school districts may increase the property tax rate above 1% for the period necessary to retire new general obligation bonds, if two-thirds of those voting in a local election approve the issuance of such bonds and the money raised through the sale of the bonds is used exclusively to purchase or improve real property.

Proposition 62

Proposition 62 was adopted by the voters at the November 4, 1986, general election which (a) requires that any new or higher taxes for general governmental purposes imposed by local governmental entities such as the County be approved by a two-thirds vote of the governmental entity's legislative body and by a majority vote of the voters of the governmental entity voting in an election on the tax, (b) requires that any special tax (defined as taxes levied for other than general governmental purposes) imposed by a local government entity be approved by a two-thirds vote of the voters of the governmental entity voting in an election on the tax, (c) restricts the use of revenues from a special tax to the purposes or for the service for which the special tax was imposed, (d) prohibits the imposition of *ad valorem* taxes on real property by local governmental entities except as permitted by Article XIII A of the California Constitution, (e) prohibits the imposition of transaction taxes and sales taxes on the sale of real property by local governmental entities, and (f) requires that any tax imposed by a local governmental entity on or after August 1, 1985, be ratified by a majority vote of the voters voting in an election on the tax within two years of the adoption of the initiative or be terminated by November 15, 1988.

On September 28, 1995, the California Supreme Court, in the case of *Santa Clara County Local Transportation Authority v. Guardino*, upheld the constitutionality of Proposition 62. In this case, the court held that a county-wide sales tax of one-half of one percent was a special tax that, under Section 53722 of the Government Code, and was held invalid without the required two-thirds voter approval. The decision did not address the question of whether or not it should be applied retroactively.

Following the *Guardino* decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62. On June 4, 2001, the California Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("*La Habra*"). In this case, the court held that a public agency's continued imposition and collection of a tax is an ongoing violation upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought. Since the adoption of Proposition 62, the County has not enacted any increase in taxes that would be subject to Proposition 62

Right to Vote on Taxes Initiative-Proposition 218

On November 5, 1996, the voters of the State approved Proposition 218, a constitutional initiative, entitled the "Right to Vote on Taxes Act" ("Proposition 218"). Proposition 218 adds Articles XIII C and XIII D to the California Constitution and contains a number of interrelated provisions affecting the ability of local governments, including the County, to levy and collect both existing and future taxes, assessments, fees and charges. Proposition 218 became effective on November 6, 1996. Senate Bill 919 was enacted to provide certain implementing provisions for Proposition 218 and became effective July 1, 1997. The County is unable to predict whether and to what extent Proposition 218 may be held to be constitutional or how its terms will be interpreted and applied by the courts. Proposition 218 could substantially restrict the County's ability to raise future revenues and could subject certain existing sources of revenue to reduction or repeal, and increase the County's costs to hold elections, calculate fees and assessments, notify the public and defend its fees and assessments in court. Further, as described below, Proposition 218 provides for broad initiative powers to reduce or repeal assessments, fees and charges. This initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges, However, other than any impact resulting from the exercise of this initiative power, presently the County does not believe that the potential financial impact on the financial condition of the County as a result of the provisions of Proposition 218 will adversely affect the County's ability to pay debt service on the Certificates as and when due and its other obligations payable from the General Fund.

Article XIII C of Proposition 218 requires majority voter approval for the imposition, extension or increase of general taxes and two-thirds voter approval for the imposition, extension or increase of special taxes, including special taxes deposited into the County's General Fund. Proposition 218 also provides that any general tax imposed, extended or increased without voter approval by any local government on or after January 1, 1995 and prior to November 6, 1996 shall continue to be imposed only if approved by a majority vote in an election held within two years of November 6, 1996. The County has not enacted imposed, extended or increased any tax without voter approval since January 1, 1995. These voter approval requirements of Proposition 218 reduce the flexibility of the County to raise revenues through General Fund taxes, and no assurance can be given that the County will be able to raise such taxes in the future to meet increased expenditure requirements.

Article XIII C of Proposition 218 also expressly extends the initiative power to give voters the power to reduce or repeal local taxes, assessments, fees and charges, regardless of the date such taxes, assessments, fees or charges were imposed. This extension of the initiative power to some extent constitutionalizes the March 6, 1995 State Supreme Court decision in *Rossi v. Brown*, which upheld an initiative that repealed a local tax and held that the State constitution does not preclude the repeal, including the prospective repeal, of a tax ordinance by an initiative, as contrasted with the State constitutional prohibition on referendum powers regarding statutes and ordinances which impose a tax. Generally, the initiative process enables California voters to enact legislation upon obtaining requisite voter approval at a general election. Proposition 218 extends the authority stated in *Rossi v. Brown* by expanding the initiative power to include reducing or repealing assessments, fees and charges, which had previously been considered administrative rather than legislative matters and therefore beyond the initiative power. This extension of the initiative power is not limited by the terms of Proposition 218 to fees imposed after November 6, 1996 and absent other legal authority could result in retroactive reduction in any existing taxes, assessments or fees and charges. Such legal authority could include the limitations imposed on the impairment of contracts under the contract clause of the United States Constitution. SB 919 provides that the initiative power provided for in Proposition 218 "shall not be construed to mean that any owner or beneficial owner of a municipal security, purchased before or after (the effective date of Proposition 218) assumes the risk of, or in any way consents to, any action by initiative measure that constitutes an impairment of contractual rights" protected by the United States Constitution. However, no assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges that currently are deposited into the County's General Fund. Further, "fees" and "charges" are not defined in Article XIII C or SB 919, and it is unclear whether these terms are intended to have the same meanings for purposes of Article XIII C as they do in Article XIII D, as described below. Accordingly, the scope of the initiative power under Article XIII C could include all sources of General Fund moneys not received from or imposed by the federal or State government or derived from investment income.

The initiative power granted under Article XIII C of Proposition 218, by its terms, applies to all local taxes, assessments, fees and charges and is not limited to local taxes, assessments, fees and charges that are property-related. The County is unable to predict whether the courts will interpret the initiative provision to be limited to property-related fees and charges. No assurance can be given that the voters of the County will not, in the future, approve an initiative which reduces or repeals local taxes, assessments, fees or charges which are deposited into the County's General Fund. The County has assessed the potential impact on its financial condition of the provisions of Proposition 218 respecting the imposition and increase of taxes, fees, charges and assessments and does not believe that an election by the voters to reduce or eliminate the imposition of certain existing fees, charges, assessments and taxes would substantially affect its financial condition. However, the County believes that in the event that the initiative power was exercised so that all local taxes, assessments, fees and charges which may be subject to the provisions of Proposition 218 are eliminated or substantially reduced, the financial condition of the County, including its General Fund, could be materially adversely affected. Although the County does not currently anticipate that the provisions of Proposition 218 would adversely affect its ability to pay the principal of and interest on the Certificates as and when due and its other obligations payable from the General Fund, no assurance can be given regarding the ultimate interpretation or effect of Proposition 218 on the County's finances.

Article XIII D of Proposition 218 adds several new requirements making it generally more difficult for local agencies to levy and maintain "assessments" for municipal services and programs. "Assessment" is defined in Proposition 218 and SB 919 to mean any levy or charge upon real property for a special benefit conferred upon the real property. This includes maintenance assessments imposed in County service areas and in special districts. In most instances, in the event that the County is unable to collect assessment revenues relating to specific programs as a consequence of Proposition 218, the County will curtail such services rather than use amounts in the General Fund to finance such programs. In addition, independent fire districts within the County impose assessments that may be subject to Proposition 218. Accordingly, the County anticipates that any impact Proposition 218 may have on existing or future taxes, fees, and assessments will not adversely affect the ability of the County to pay debt service on the Certificates as and when due. However, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the assessments that presently finance them are reduced or repealed.

Article XIII D of Proposition 218 also adds several provisions affecting "fees" and "charges" which are defined as "any levy other than an *ad valorem* tax, a special tax, or an assessment, imposed by a local government upon a parcel or upon a person as an incident of property ownership, including a user fee or charge for a property related service." All new and, after June 30, 1998, existing property related fees and charges must conform to requirements prohibiting, among other things, fees and charges which (i) generate revenues exceeding the funds required to provide the property related service, (ii) are used for any purpose other than those for which the fees and charges are imposed, (iii) are for a service not actually used by, or immediately available to, the owner of the property in question, or (iv) are used for general governmental services, including police, fire or library services, where the service is available to the public at large in substantially the same manner as it is to property owners. Further, before any property related fee or charge may be imposed or increased, written notice must be given to the record owner of each parcel of land affected by such fee or charge. The County must then hold a hearing upon the proposed imposition or increase of such property based fee, and if written protests against the proposal are presented by a majority of the owners of the identified parcels, the County may not impose or increase the fee or charge. Moreover, except for fees or charges for sewer, water and refuse collection services, no property related fee or charge may be imposed or increased without majority approval by the property owners subject to the fee or charge or, at the option of the local agency, two-thirds voter approval by the electorate residing in the affected area. The County believes that all such "fees" and "charges" that are currently imposed conform to these requirements.

The fees and charges of the County's enterprise funds, including those which are not property related for purposes of Article XIII D of Proposition 218, may be determined to be fees and charges subject to the initiative power as provided in Article XIII C of Proposition 218, as described above. In the event that fees and charges cannot be appropriately increased or are reduced pursuant to the exercise of the initiative power, the County may have to choose whether to reduce or eliminate the service financed by such fees or charges or finance such service from its General Fund. Further, no assurance can be given that the County may or will be able to reduce or eliminate such services in the event the fees and charges that presently finance them are reduced or repealed.

Additional implementing legislation respecting Proposition 218 may be introduced in the State legislature from time to time that would supplement and add provisions to California statutory law. No assurance may be given as to the terms of such legislation or its potential impact on the County.

Future Initiatives

Article XIII A, Article XIII B and Propositions 46, 62 and 218 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time, other initiative measures could be adopted, which may place further limitations on the ability of the State, the County or local districts to increase revenues or to increase appropriations which may affect the County's revenues or its ability to expend its revenues.

RISK FACTORS

Potential investors in evaluating the Certificates should consider the following factors, along with all other information in this Official Statement.

Not a Pledge of Taxes

The obligation of the County to pay the Lease Payments and Additional Payments does not constitute an obligation of the County for which the County is obligated to levy or pledge any form of taxation or for which the County has levied or pledged any form of taxation. The obligation of the County to pay Lease Payments and Additional Payments does not constitute a debt or indebtedness of the County, the State of California or any of its political subdivisions within the meaning of any constitutional or statutory debt limitation or restriction.

Although the Lease Agreements do not create a pledge, lien or encumbrance upon the funds of the County, the County is obligated under the Lease Agreements to pay Lease Payments and Additional Payments from any source of legally available funds (subject to certain exceptions) and the County has covenanted in each Lease Agreement that, for as long as the Property related to such Lease Agreement is available for its use and possession, it will make the necessary annual appropriations within its budget, beginning with fiscal year 2004-05, for all Lease Payments and Additional Payments due thereunder.

Additional Obligations of the County

The County is permitted to enter into other obligations that constitute additional charges against its revenues without the consent of Owners of the Certificates. To the extent that the County incurs additional obligations, the funds available to pay Lease Payments may be decreased.

The Lease Payments and other payments due under the Lease Agreements (including payment of costs of repair and maintenance of the Property, taxes and other governmental charges levied against the Property) are payable from funds lawfully available to the County. In the event that the amounts which the County is obligated to pay in a fiscal year exceed the County's revenues for such year, the County may choose to make some payments rather than making other payments, including Lease Payments and Additional Payments, based on the perceived needs of the County. The same result could occur if, because of California Constitutional limits on expenditures, the County is not permitted to appropriate and spend all of its available revenues or is required to expend available revenues to preserve the public health, safety and welfare.

Default; No Acceleration

Whenever any event of default referred to in the Lease Agreements happens and continues, the Trustee is authorized under the terms of the Lease Agreements to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreements; provided, however, that notwithstanding anything therein or in the Trust Agreements to the contrary, THERE SHALL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN DUE OR PAST DUE TO BE IMMEDIATELY DUE AND PAYABLE. Following an event of default under a Lease Agreement, at the direction of the Insurer, the Trustee may elect either to terminate such Lease Agreement and seek to collect damages from the County or to maintain such Lease Agreement in effect and seek to collect the Lease Payments as they become due thereunder. The Lease Agreements further provide that the Trustee can elect to re-enter and re-let the Property following an event of default subject to the right of any sub-lessee lawfully occupying a portion of the Property. An event of default under one Lease Agreement is not an event of default under the other Lease Agreement as the Lease Agreements are not subject to cross-default.

Under the Lease Agreements, the County will agree that if the Lease Agreements is not terminated by the Trustee following any event of default, it will remain liable for the payment of Lease Payments and Additional Payments and the performance of all conditions therein contained and to reimburse the Authority, or its assignee, for the full amount of the Lease Payments and Additional Payments to the end of the term of the Lease Agreements, but said Lease Payments and Additional Payments will be payable only at the same time and in the same manner as provided in the Lease Agreements. The County further agrees to reimburse the Authority, and its assignee, for any cost or expense, including attorneys' fees, incurred by the Authority or its assignee in collecting the Lease Payments and Additional Payments thereunder following a default. The County covenants and agrees that no surrender of the Property by it for the remainder of the term of a Lease Agreement will be valid to terminate its obligations thereunder except where the Authority, or its assignee, has expressly elected to terminate such Lease Agreement. No surrender or termination of the Lease Agreements will be affected merely by operation of law.

No assurance can be given that the Trustee will be able to re-let the Property so as to provide rental income sufficient to pay principal and interest evidenced by the Certificates in a timely manner or that such re-letting will not adversely affect the exclusion of interest with respect thereto from gross income for federal or State income tax purposes. Furthermore, it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting with respect to the Property.

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Lease Agreements and the Trustee is not empowered to sell the Property and use the proceeds of such sale to prepay the Certificates or pay debt service with respect thereto. The County will be liable only for Lease Payments on an annual basis and, in the event of a default, the Trustee would be required to seek a separate judgment each year for that year's defaulted Lease Payments. Any such suit for money damages would be subject to limitations on legal remedies against counties in California, including a limitation on enforcement of judgments against funds of a Fiscal Year other than the Fiscal Year in which the Lease Payments were due and against funds needed to serve the public welfare and interest.

Substitution or Release of Property

The Lease Agreements provide that, upon satisfaction of the conditions specified therein, the County may release from the Lease Agreements and Site Leases any portion of the Property or substitute other property and improvements for all or a portion of the Property. Although each Lease Agreement requires that the property which will comprise the Property after such release or substitution must have an annual fair rental value equal to or greater than the Lease Payments thereafter becoming due and payable under the related Lease Agreement, the Lease Agreements do not require that such property have an annual fair rental value equal to or greater than the annual fair rental value of the property comprising the Property at the time of substitution or release. Thus, a portion of the property comprising the Property could be replaced with less valuable property, or could be released altogether. Such a replacement or release could have an adverse impact on the security for the related Series of Certificates secured by such Property, particularly if an event requiring abatement of Lease Payments were to occur subsequent to such substitution or release.

Abatement

The obligation of the County under the Lease Agreements to pay Lease Payments is in consideration for the use and possession of the Property. The obligation of the County to make Lease Payments under a Lease Agreement may be abated in whole or in part if the County does not have full use and possession of the Property leased thereunder. The amount of Lease Payments due under a Lease Agreement will be abated during any period in which by reason of damage, destruction, condemnation or title defect there is substantial interference with the use and possession of the Property leased thereunder. Such abatement will end with the substantial completion or replacement, repair or reconstruction of the Property or a portion thereof, or the elimination of the title defect interfering with the use of the Property or a portion thereof.

Each Reserve Fund will be funded in an amount equal to the Reserve Requirement for the respective Series of Certificates. Funds on deposit in the Reserve Fund for a Series may be used by the Trustee to make payments with respect to the respective Certificates in the event amounts received by the Trustee are insufficient to pay principal and interest represented by the Certificates as such amounts become due. If damage or destruction or eminent domain proceedings with respect to the Property result in abatement of Lease Payments, and the resulting Lease Payments, together with moneys in the Lease Payment Fund, Interest Account, Principal Account and Reserve Fund for a Series, are insufficient to make all payments of principal and interest represented by the related Series of Certificates during the period that the Property is being replaced, repaired, reconstructed or completed, then payments of the principal and interest components due shall be made to the Trustee from the proceeds of rental interruption insurance or other amounts pursuant to the Trust Agreement for such Series.

The amounts available to the Trustee following an abatement may not be sufficient to pay principal and interest represented by the Certificates in the amounts and at the rates set forth thereon. In such an event, all Certificate Owners of the affected Series would forfeit a pro rata portion of interest attributable to abated Lease Payments payable during the period of abatement and, to the extent Certificates mature during a period of abatement, the Owners of such Certificates would forfeit a pro rata portion of principal attributable to such abated Lease Payments. The failure to make payments of principal and interest as a result of an abatement would not under such circumstances constitute a default under the Trust Agreements, the Lease Agreements or the Certificates.

Security

Military conflicts and terrorist activities may adversely impact the operation of the County and Lease Payments made under the Lease Agreements. In addition, the County may experience a decrease with respect to its revenues and an increase with respect to its expenses because of any change in economic circumstances as a result of future military conflicts or terrorist activities. Such a reduction in revenues may include, but is not limited to, a decline in airport, transient occupancy tax, parking tax, business tax and sales tax revenues and such an increase in expenses may include, but is not limited to, an increase in worker's compensation expenses.

The County is subject to safety and security measures and inspections on a continuing basis. Neither the Authority nor the County represent that any existing or additional safety and security measures will be adequate in the event that terrorist activities are directed against the County or that costs of security measures will not be greater than presently anticipated. See "Risk Factors - Abatement" herein.

Earthquakes and Natural Disasters

The County is not obligated under the Lease Agreements to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Property, unless the County, in its reasonable discretion, determines that such coverage is available from reputable insurers at commercially reasonable rates. The County currently has no earthquake insurance on the Property and does not anticipate such insurance being available at commercially reasonable rates. The County is not located in a recognized earthquake zone and no known major earthquake fault is located within the County. However, like many California communities, the County is subject to unpredictable seismic activity, fires, flood or other natural disasters. Although no known active or inactive fault lines pass through, or near, the Property, seismic activity, fire, flood or other natural disasters could result in substantial damage to and interference with the County's right to use and possession of all or a portion of the Property could result in Lease Payments being subject to abatement.

Limitations on Remedies

The rights of the owners of the Certificates are subject to the limitations on legal remedies against counties in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Additionally, enforceability of the rights and remedies of the owners of the Certificates, and the obligations incurred by the County, may become subject to the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors rights generally, now or hereafter in effect, equity principles which may limit the specific enforcement under State law of certain remedies, the exercise by the United States of America of the powers delegated to it by the Constitution, the reasonable and necessary exercise, in certain exceptional situations, of the police powers inherent in the sovereignty of the State and its governmental bodies in the interest of serving a significant and legitimate public purpose and the limitations on remedies against counties in the State. Bankruptcy proceedings, or the exercise of powers by the federal or State government, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise, and consequently may entail risks of delay, limitation, or modification of their rights.

Bankruptcy

In addition to the limitation on remedies contained in the Trust Agreements, the rights and remedies provided in the Trust Agreements and the Lease Agreements may be limited by and are subject to the provisions of federal bankruptcy laws and to other laws or equitable principles that may affect the enforcement of creditors rights. Under Chapter 9 of the Bankruptcy Code (Title 11, United States Code), which governs the bankruptcy proceedings for public agencies such as the County, there are no involuntary petitions in bankruptcy. Bankruptcy proceedings, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy proceedings or otherwise, and consequently may entail risks of delay, limitation or modification of their rights.

THE AUTHORITY

The Stanislaus County Capital Improvements Financing Authority was established pursuant to a Joint Exercise of Powers Agreement, dated as of September 1, 1989, by and between the County and the Redevelopment Agency of Stanislaus County. The Board of Supervisors of the County is appointed as the Governing Board of the Authority.

TAX MATTERS

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, Newport Beach, California, Special Counsel, under existing statutes, regulations, rulings and judicial decisions, interest due with respect to the Certificates is excluded from gross income for federal income tax purposes, and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Special Counsel, interest due with respect to the Certificates is exempt from State of California personal income tax. Special Counsel notes that, with respect to corporations, interest due with respect to the Certificates may be included as an adjustment in the calculation of alternative minimum taxable income which may affect the alternative minimum tax liability of such corporations.

The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of the same series and maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to the owner of the Certificate before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by the owner of a Certificate will increase the owner's basis in the Certificate. In the opinion of Special Counsel original issue discount that accrues to the owner of a Certificate is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, and is exempt from State of California personal income tax.

Special Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) due with respect to the Certificates is based upon certain representations of fact and certifications made by the County, the Central Valley Center for the Arts, Inc., a 501(c)(3) nonprofit corporation organized to support the arts in the County and Gallo Center for the Arts, LLC, a single member LLC that is wholly-owned by CVCA (collectively "CVCA") and others and is subject to the condition that the County and CVCA comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portion of each Lease Payment constituting interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) due with respect to the Certificates to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The County and CVCA have covenanted to comply with all such requirements.

The amount by which a Certificate Owner's original basis for determining loss on sale or exchange in the applicable Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Certificate premium, which must be amortized under Section 171 of the Code; such amortizable Certificate premium reduces the Certificate Owner's basis in the applicable Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Certificate premium may result in a Certificate Owner realizing a taxable gain when a Certificate is sold by the Owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the Owner. Purchasers of the Certificates should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Certificate premium.

The County has elected, pursuant to Treasury Regulation Section 1.150-1(c)(3) that the Series 2004A Certificates, which are being issued to finance the Series 2004A Project, shall constitute qualified 501(c)(3) bonds within the meaning of Section 145 of the Code. With respect to the Series 2004A

Certificates, Special Counsel has relied on the opinion of Slovak Baron & Empey LLP, Palm Springs, California, Counsel to CVCA, that CVCA is an organization described in Section 501(c)(3) of the Code and other matters. Neither Special Counsel nor CVCA's Counsel can give or has given any opinion or assurance about the future activities of CVCA, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service (the "IRS"). Failure of CVCA to be organized and operated in accordance with IRS's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest with respect to the Certificates being included in federal gross income, possibly from the date of the original execution and delivery of the Certificates.

As described in the Preliminary Official Statement relating to the Certificates, dated March 12, 2004 (the "Preliminary Official Statement"), in its Circular 230, the Department of the Treasury has proposed modifications to its regulations governing the practice before the IRS. The proposed modifications would treat opinions on tax-exempt bonds as tax shelter opinions subject to special restrictions relating to the form of the opinion, among other matters. Subsequent to the publication of the Preliminary Official Statement, the IRS made an announcement, the effect of which is that the proposed modifications to Circular 230 will not be applicable to the Certificates. As a result, Special Counsel expects to deliver the proposed form of opinion attached hereto as Appendix D.

Special Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Special Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Trust Agreements, the Lease Agreements, and the Tax Certificate permit certain actions to be taken or to be omitted if a favorable opinion of Special Counsel is provided with respect thereto. Special Counsel expresses no opinion as to the exclusion from gross income for federal income tax purposes of interest (and original issue discount) due with respect to any Certificate if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

The IRS has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Certificates will be selected for audit by the IRS. It is also possible that the market value of the Certificates might be affected as a result of such an audit of the Certificates (or by an audit of similar securities).

Although Special Counsel has rendered an opinion that the interest (and original issue discount) due with respect to the Certificates is excluded from gross income for federal income tax purposes provided that the County continues to comply with certain requirements of the Code, the ownership of the Certificates and the accrual or receipt of interest (and original issue discount) with respect to the Certificates may otherwise affect the tax liability of certain persons. Special Counsel expresses no opinion regarding any such tax consequences. Accordingly, before purchasing any of the Certificates, all potential purchasers should consult their tax advisors with respect to collateral tax consequences with respect to the Certificates.

The form of Special Counsel's opinion with respect to the Certificates is attached hereto as Appendix D.

FINANCIAL STATEMENTS

Included herein as Appendix B are the audited financial statements of the County as of and for the year ended June 30, 2003, together with the report thereon dated October 16, 2003 of Bartig, Basler & Ray, A Professional Corporation, independent certified public accountants ("Bartig, Basler & Ray"). Such audited financial statements have been included herein in reliance upon such report. Bartig, Basler

& Ray has consented to the use of the audited financial statements of the County and the report as Appendix B in this Official Statement. However, Bartig, Basler & Ray has not undertaken to update the audited financial statements of the County or its report or to take any action intended or likely to elicit information concerning the accuracy, completeness or fairness of the statements made in this Official Statement, and no opinion is expressed by Bartig, Basler & Ray with respect to any event subsequent to its report dated October 16, 2003.

CERTAIN LEGAL MATTERS

Certain legal matters incident to the authorization, sale, execution and delivery of the Certificates are subject to the approval of Stradling Yocca Carlson & Rauth, a Professional Corporation, Special Counsel. A complete copy of the proposed form of opinion of Special Counsel is contained in Appendix D hereto. Special Counsel has not undertaken any responsibility for the accuracy, completeness or fairness of this Official Statement or other offering materials relating to the Certificates and expresses no opinion relating thereto. Certain legal matters will be passed upon for the County by its disclosure counsel, Hawkins Delafield & Wood LLP, Los Angeles, California and for the County and the Authority by the County Counsel.

LITIGATION

To the best knowledge of the County there is no action, suit or proceeding known to be pending or threatened restraining or enjoining the execution or delivery of the Certificates, the Trust Agreements, the Lease Agreements, or any other document relating to the Certificates, or in any way contesting or affecting the validity of the foregoing.

There are a number of lawsuits and claims pending against the County. In the opinion of the County, such suits and claims as are presently pending will not have a material adverse affect on the ability of the County to make Lease Payments.

RATING

Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "AAA" to the Certificates with the understanding that the Insurer will issue its Insurance Policy securing the payment when due of the principal of and interest on the Certificates concurrently with the issuance of the Certificates. Such a rating reflects only the view of Moody's, and does not constitute a recommendation to buy, sell or hold the Certificates. An explanation of the significance of such rating may be obtained only from Moody's. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's if in the judgment of circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

UNDERWRITING

The Certificates are being purchased by the Underwriter named on the cover page hereof (the "Underwriter") pursuant to a Certificate Purchase Agreement with the County (the "Purchase Agreement"). The Underwriter has agreed, subject to certain conditions, to purchase the Series 2004A Certificates at a price of $15,141,562.45 and the Series 2004B Certificates at a price of $27,099,625.85. The Purchase Agreement relating to the Certificates provides that the Underwriter will purchase all of the Certificates if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Agreement, the approval of certain legal matters by counsel and certain other conditions. The Underwriter may offer and sell the Certificates to certain dealers and others at prices lower than the offering prices stated on the cover page. The offering prices may be changed from time to time by the Underwriter.

FINANCIAL ADVISOR

The County has retained Kelling, Northcross & Nobriga, A Division of Zion's First National Bank, as financial advisor (the "Financial Advisor") in connection with the issuance of the Certificates. The compensation of the Financial Advisor for this issue is contingent on the successful sale of the Certificates. The Financial Advisor is not obligated to undertake an independent verification of or assume responsibility for the accuracy, completeness or fairness of the information contained in this Official Statement.

CONTINUING DISCLOSURE AGREEMENT

Pursuant to a Continuing Disclosure Agreement with the Trustee (the "Disclosure Agreement"), the County has agreed to provide, or cause to be provided, with respect to each fiscal year commencing with fiscal year 2003-04, by no later than January 1 after the end of the prior fiscal year, to each nationally recognized municipal securities information repository and any public or private repository or entity designated by the State as a state repository (each, a "Repository") for purposes of Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission (the "Rule") certain annual financial information and operating data, including its audited financial statements and information of the type set forth in this Official Statement under the heading "County Financial Information." See Appendix F - "Form of Continuing Disclosure Agreement." The County has never failed to comply in all material respects with any previous undertakings with regard to the Rule to provide annual reports or notices of material events.

MISCELLANEOUS

Included herein are brief summaries of certain documents and reports, which summaries do not purport to be complete or definitive, and reference is made to such documents and reports for full and complete statements of the contents thereof. Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the County and the purchasers or Owners of any of the Certificates.

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

COUNTY OF STANISLAUS

By: /s/ Patricia Hill-Thomas
Patricia Hill-Thomas
Interim Chief Executive Officer

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APPENDIX A

ECONOMIC AND DEMOGRAPHIC INFORMATION REGARDING THE COUNTY OF STANISLAUS

There follows in this Official Statement a brief description of the County of Stanislaus (the "County"), together with current information concerning its economy and governmental organization.

General Information

The County of Stanislaus was organized on April 1, 1854 and is a general law county governed by the General Law Statutes of the State of California (the "State"). The County, which is located in the Central Valley region of the State about 300 miles north of Los Angeles and 90 miles east of San Francisco, covers approximately 1,494 square miles or 869,338 mapped acres. Approximately 44.5% of the County's acreage consists of farmland and 43% is used for grazing land.

The City of Modesto, incorporated on August 6, 1854, serves as the County seat. The other eight incorporated cities of the County are Ceres, Hughson, Newman, Oakdale, Patterson, Riverbank, Turlock and Waterford.

As required by State and federal mandate, the County is responsible at the local level for activities involving public welfare, health and justice, including the administration of courts and jails, and for the maintenance of public records, land use, solid waste disposal, assessment, collection of ad valorem taxes, and road transportation activities. The County also operates recreational and cultural facilities serving both the incorporated and unincorporated areas of the County.

Governmental Organization

The five-member Board of Supervisors serves as the legislative body of the County. Members are elected by district to four-year terms, with elections held every two years on a staggered basis.

The Chief Executive Officer manages the activities of the County's departments and the County Counsel provides legal counsel to the Board of Supervisors. Both officers are hired by and are directly responsible to the Board of Supervisors. Other elected officials include the Assessor, Auditor-Controller, Sheriff-Coroner, District Attorney, Clerk-Recorder, and Treasurer-Tax Collector.

The County provides a wide range of services to its residents, including police protection, medical and health services, library services, judicial institutions including support programs, road maintenance, airport service, parks and a variety of public assistance programs. Other services provided by special districts, which are governed by the County Board of Supervisors, include fire protection, lighting, sanitation and flood control. The County provides a wide variety of services for unincorporated towns and rural areas, which is approximately 25% of the population.

Education and Community Services

Within the County a variety of public and private educational institutions furnish area residents with excellent instructional services. There are 29 school districts in the County, providing kindergarten through twelfth grade education. In State Achievement Tests, County students collectively have ranked above average at all grade levels.

The County is served by a two-year community college, Modesto Junior College, which provides an instructional program that leads to transfers to four-year colleges and universities. Modesto Junior College also offers a curriculum that grants associate degrees in a number of vocational and academic areas, as well as some vocational programs that lead to a certification in a specific trade. Through a community service program, students may take part in fee-funded vocational, cultural, education and enrichment opportunities.

The County is also served by California State University, Stanislaus, which is located in Turlock within 30 minutes of surrounding County communities. Cal State Stanislaus is one of the 19 campuses of the California State University system, and offers bachelor's degree programs in Business, Humanities, Art, Science and Education, and Master's degrees in Business Administration, Communication Studies, Education, English, History, Psychology and Public Administration. Cal State Stanislaus is fully accredited by the Western Association of Schools and Colleges, and its Department of Chemistry is nationally accredited.

Transportation

The County is intersected by several major highways including Interstate 5 and Highway 99, two of the State's major north-south routes. East-west arteries include Highways 132, 108 and 120. This road system provides a convenient and efficient means of shipping to all major State and national destinations. Transportation and access to major markets are often cited as one of the major advantages of locating a business in the County.

More than 90 interstate truck lines and over 100 contract carriers operate in the County. Overnight delivery is possible to all major locations in the State. The County is served by three transcontinental railroad systems: Santa Fe, Southern Pacific and Union Pacific railroads. Modesto and Empire Traction Company ("M&ET") links the three railroads with shortline service. M&ET also operates Valley Lift, a modern intermodal facility in Modesto capable of loading 60 flatcars at a time, with staging and parking for more than 500 truck trailers or containers. Valley Lift's two overhead cranes can handle 40-ton loads in trailers and containers.

The Modesto City-County Airport is served by two commuter airlines with daily flights to the cities of San Francisco, Los Angeles and San Jose. At Modesto Airport there are fixed-base operators providing private air service, air taxi, charter and cargo services. Within 30 minutes of Modesto, the Stockton Airport provides additional intrastate air services. In addition, other municipal airports operate within the County.

Several major airports, providing service to national and international destinations, are within 90 miles of the County. These include San Francisco, San Jose, Oakland and Sacramento airports. The Port of Stockton is 30 miles north of the County, providing a deep-water port with direct access to the Pacific Ocean. Rail and truck transportation to and from the port are available from the County.

Population Characteristics

Based on population estimates by the State Department of Finance, the population of the County increased by from 1980 to 1990 by 38.1% and increased from 1990 to 2000 by 22.1%. From 2000 to 2002, the population growth has averaged 2.6% per year. The following table provides a historical summary of population estimates for the County and its largest cities and unincorporated area for the years 1980, 1990 and the period 2000 through 2003.

COUNTY OF STANISLAUS, CITIES AND UNINCORPORATED AREA POPULATION (As of January 1)

	1980	1990	2000	2001	2002	2003
Stanislaus County	264,300	365,100	445,900	456,300	470,000	481,600
Cities:						
Ceres	13,000	25,850	34,650	35,000	35,700	36,400
Hughson	2,930	3,220	3,980	4,110	4,240	4,920
Modesto	106,100	162,100	188,200	193,100	198,800	203,300
Newman	2,770	3,960	7,025	7,475	7,550	7,775
Oakdale	8,440	11,800	15,500	15,700	16,250	16,750
Patterson	3,880	8,450	11,500	12,200	13,050	13,650
Riverbank	5,625	8,425	15,800	16,150	17,000	17,250
Turlock	25,700	41,750	55,600	57,300	59,400	61,300
Waterford	2,600	4,570	6,925	7,025	7,175	7,675
Total	171,000	270,200	339,000	349,100	358,855	369,020
Unincorporated Area	93,300	94,900	106,900	108,200	110,800	112,600

Source: State of California, Department of Finance
Note: Totals may not add due to rounding.

Employment

As of January, 2004 the County's civilian labor force was 215,400 with an unemployment rate of 12.4%. These figures compare to the State's civilian labor force and unemployment of 17,460,000 and 6.7% respectively. The following chart compares civilian labor force, employment and unemployment statistics, as available, for the years 1999 through January, 2004.

COUNTY, STATE AND NATIONAL
CIVILIAN LABOR FORCE, EMPLOYMENT AND UNEMPLOYMENT
ANNUAL AVERAGES
1999-2004

Year/Area	Civilian Labor Force	Civilian Employment	Civilian Unemployment	Unemployment Rate
1999				
County of Stanislaus	203,500	182,100	21,400	10.5%
California	16,375,600	15,522,300	853,300	5.2
United States	139,380,000	133,498,000	5,882,000	4.2
2000				
County of Stanislaus*	204,300	182,900	21,400	10.5%
California	16,892,000	16,056,500	835,500	4.9
United States	142,588,000	136,899,000	5,689,000	4.0
2001				
County of Stanislaus	210,500	188,800	21,700	10.3%
California	17,171,600	16,249,100	922,800	5.4
United States	143,783,000	136,941,000	8,389,000	4.8
2002				
County of Stanislaus	216,600	191,800	25,000	11.5%
California	17,375,800	16,214,900	1,160,900	6.7
United States	144,875,000	136,486,000	8,389,000	5.8
2003				
County of Stanislaus	216,600	191,800	25,000	11.5%
California	17,460,000	16,282,700	1,177,300	6.7
United States	146,515,000	137,625,000	8,776,000	5.9
2004*				
County of Stanislaus	215,400	188,600	26,800	12.4%
California	17,460,000	16,297,500	1,162,400	6.7
United States	146,863,000	138,566,000	8,297,000	5.6

Source: State of California, Employment Development Department and U.S. Department of Labor, Bureau of Labor Statistics.
March 2002 Benchmark; data not seasonally adjusted
* Data as of January, 2004.

Major Employers

The major employers in the County of Stanislaus are set forth in the following table:

COUNTY OF STANISLAUS
MAJOR EMPLOYERS
2003

Employer Name	Number of Employees	Industry
County of Stanislaus	4,747	Government
Signature Foods	4,100	Manufacturing
Modesto City Schools	4,000	Education
E & J Gallo	3,425	Wines
Del Monte Corporation	2,600	Manufacturing
Memorial Hospital Association	2,600	Health Care
Doctors Medical Center	2,300	Health Care
Stanislaus Foods	2,000	Manufacturing
Turlock School District	1,831	Education
Foster Farms	1,813	Turkey Products

Source: Stanislaus County Economic Development Corporation.

Employment by Industry

The following table shows employment by industry group in the County for the period 1999 through 2003:

COUNTY OF STANISLAUS
EMPLOYMENT BY INDUSTRY GROUP(1)
ANNUAL AVERAGES 1999-2003

Industry Group(2)	1999	2000	2001	2002	2003
Total Agricultural	16,400	15,700	14,100	13,900	13,500
Non-Agricultural:					
Total Private	118,000	120,300	125,200	135,400	127,100
Goods Producing:					
Natural Resources, Mining & Construction	9,200	9,900	11,000	10,700	11,300
Manufacturing	22,900	22,800	23,000	22,500	22,600
Service Providing:					
Wholesale Trade	5,500	5,400	5,400	5,600	5,700
Retail Trade	19,900	20,200	21,100	21,700	21,900
Transportation	4,000	3,800	4,300	4,500	4,700
Information	2,000	2,000	2,200	2,100	2,100
Financial Activities	5,300	5,100	5,400	5,600	6,100
Professional & Business Services	16,300	17,400	16,800	15,000	14,000
Educational & Health Services	15,900	16,500	17,100	18,100	19,000
Leisure and Hospitality Services	12,000	12,200	13,000	13,600	13,700
Other Services	5,200	5,000	5,900	6,200	6,200
Federal Government	1,200	1,400	1,200	1,200	1,200
State & Local Government	22,500	22,600	23,400	24,100	23,700
Total All Industries	158,100	159,900	163,800	164,600	165,500

Source: State of California Employment Development Department.

(1) Data based on the Modesto Metropolitan Statistical Area; March 2002 Benchmark; data may not total due to independent rounding.

(2) Employment is by place of work and does not include persons who are involved in labor management trade disputes, self-employed, or unpaid family workers.

Personal Income

Between 1997 and 2002 the County's median household effective buying income increased 18.9% while that of the State and nation grew by 16.5% and 9.9%, respectively, for the same time period. The following table summarizes the total effective buying income and the median household effective buying income for the County, the State and the nation between 1997 and 2002.

COUNTY, STATE AND NATIONAL EFFECTIVE BUYING INCOME 1997 to 2002

Year and Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
1997		
Stanislaus County	$ 5,229,756	$30,543
California	524,439,600	36,483
United States	4,399,998,035	34,618
1998		
Stanislaus County	$ 5,489,170	$30,839
California	551,999,317	37,091
United States	4,621,491,730	35,377
1999		
Stanislaus County	$ 5,900,303	$32,750
California	590,376,663	39,492
United States	4,877,786,658	37,233
2000		
Stanislaus County	$ 6,611,580	$36,022
California	652,190,282	44,464
United States	5,230,824,904	39,129
2001		
Stanislaus County	$ 6,517,967	$36,180
California	650,521,407	43,532
United States	5,303,481,498	38,365
2002		
Stanislaus County	$ 6,679,400	$36,331
California	647,879,427	42,484
United States	5,340,682,818	38,035

Source: Sales and Marketing Management Survey of Buying Power, 2003.

Commercial Activity

The following table shows the County's taxable sales from 1998 through August 2002.

COUNTY OF STANISLAUS
TAXABLE SALES
1998-2002
(000's)

	1998	1999	2000	2001	2002
Apparel Stores	$ 86,916	$ 94,533	$ 115,339	$ 127,711	$ 154,083
General Merchandise Stores	592,821	637,505	702,326	754,247	784,431
Specialty Stores Group	285,634	342,170	390,154	411,996	432,777
Food Stores	202,291	330,364	237,565	255,923	260,781
Eating and Drinking Group	293,068	320,071	342,807	378,895	403,421
Home Furnishing and Appliances	124,565	133,580	146,043	153,417	181,384
Building Materials	240,418	276,806	303,139	360,337	368,472
Automotive Group	774,253	922,909	1,102,803	1,069,523	1,248,936
All Other Retail Stores Group	275,195	238,896	243,819	249,876	273,693
Retail Stores Total	$2,875,161	$3,186,834	$3,583,995	$3,937,431	$4,107,978
Business and Personal Services	159,115	183,041	208,118	214,161	223,862
All Other Outlets	1,203,295	1,289,096	1,402,941	1,421,077	1,494,025
Total All Outlets	$4,237,571	$4,658,971	$5,195,054	$5,572,669	$5,825,865

Source: California State Board of Equalization, Taxable Sales in California (Sales & Use Tax).

Agriculture

Despite increasing urbanization, agriculture remains an important contributor to the County's economy. In 2002, the value of agricultural production totaled $1,367,971,000, an approximate 1.1% increase from 2001. Livestock and poultry products remain the County's number one grossing crop followed by fruit and nut crops. Crop yields have returned to their typical levels as compared to the El Niño weather conditions of 1998.

Roughly 47 percent of agricultural production consists of livestock and poultry and their products, 29 percent is comprised of fruit and nut crops, which the remainder including nursery, vegetable, seed, apiary, and field crops. The following table summarizes the County's agricultural activity from 1998 through 2002 and illustrates that the overall value of output has increased on average by 5 percent since 1998.

AGRICULTURAL PRODUCTION
FOR YEARS 1998-2002

	1998	1999	2000	2001	2002
Fruit & Nut Crops	$ 361,116,000	$ 306,276,000	$ 295,123,000	$ 311,735,000	$ 393,520,000
Field Crops	117,389,000	102,065,000	101,413,000	139,898,000	132,418,000
Vegetable Crops	81,184,000	84,533,000	95,680,000	100,153,000	105,508,000
Seed Crops	1,157,000	867,000	991,000	797,000	561,000
Nursery Products	60,123,000	64,111,000	68,642,000	68,960,000	85,889,000
Apiary Products	6,181,000	6,514,000	7,958,000	7,389,000	7,323,000
Livestock & Poultry	195,688,000	207,922,000	228,497,000	233,237,000	242,677,000
Livestock & Poultry Products	507,399,000	437,923,000	398,998,000	491,131,000	400,075,000
TOTALS	$1,302,714,000	$1,210,211,000	$ 1,197,302,000	$1,353,300,000	$1,367,971,000

Source: County of Stanislaus Agricultural Department.

Construction Activity

The total valuation of building permits issued in the County for residential and non-residential property was $724,133,000 in 2002. The following table provides a summary of building permit valuations for the County for the time period 1998 through 2002.

COUNTY OF STANISLAUS
BUILDING PERMIT ACTIVITY AND VALUATIONS
1998-2002
(000's)

	1998	1999	2000	2001	2002
Residential Valuations					
Single Family	$235,540	$284,175	$492,765	$498,984	$474,757
Multiple Family	5,637	3,208	17,566	16,540	12,839
Residential Alterations and Additions	15,202	19,213	33,081	27,292	34,343
Total Residential Valuations	$256,379	$306,596	$543,412	$542,816	$521,939
Nonresidential Valuations					
Commercial	65,465	52,275	100,544	72,333	56,864
Industrial	24,585	27,288	37,811	11,388	12,531
Other Valuation	33,081	35,817	67,502	66,676	71,701
Nonresidential Alterations and Additions	35,242	33,166	50,868	69,216	61,098
Total Non-Residential Valuations	$158,373	$148,546	$256,725	$219,613	$202,194
Total Building Valuations	$414,752	$455,142	$800,137	$762,429	$724,133
Units					
Single Units	1,997	2,246	3,110	3,941	2,881
Multi-Dwelling Units	93	64	303	253	192
Total Residential Units	2,090	2,310	3,413	3,194	3,073

Note: Totals may not add due to rounding.
Source: Construction Industry Research Board.

APPENDIX B

COUNTY OF STANISLAUS AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JUNE 30, 2003

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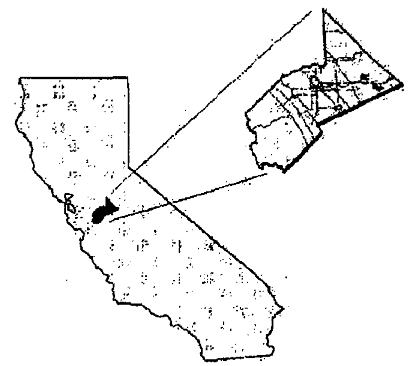
Annual Financial Report

County of Stanislaus, California

Fiscal Year Ended June 30, 2003

Annual Financial Report

County of Stanislaus, California
Fiscal Year Ended
June 30, 2003



Prepared By
Stanislaus County Auditor-Controller's Office
Larry D. Haugh, Auditor-Controller

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COUNTY OF STANISLAUS
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2003

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Curtis A. Orgill
Elba Zuniga

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

The Honorable Grand Jury and
Board of Supervisors
Stanislaus County

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Stanislaus, California, (the County), as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Pension Trust Fund, a Trust and Agency Fund, which statements reflect total assets of $967,717,056 as of June 30, 2003, and total operating revenues of $34,728,482 for the year then ended. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and in our opinion, insofar as it relates to the amounts included in the Pension Trust Fund, is based solely on the report of the other auditors.

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 Controller 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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of the other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the County of Stanislaus as of June 30, 2003, and the respective changes in financial position and cash flows,

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where applicable, thereof, and the budgetary comparison for the General 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 October 16, 2003 on our consideration of the County of Stanislaus' 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.

The Management's Discussion and Analysis (MD & A) on pages 3 through 13 and the required supplementary information other than MD & A on page 77 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

BARTIG, BASLER & RAY, CPAs, INC.

Bartig, Basler + Ray, CPAs, Inc.

October 16, 2003
Roseville, California

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the County of Stanislaus (County), we offer this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2003. Please read it in conjunction with the County's basic financial statements following this section.

FINANCIAL HIGHLIGHTS

- The assets of the County exceeded liabilities at the close of the 2002-2003 fiscal year by $650,750,384 (*net assets*). Of this amount, $501,918,905 is invested in capital net of related debt and $184,492,812 is restricted for specific purpose (*restricted net assets*), leaving a deficit of ($35,661,333) in unrestricted net assets.
- The government's total net assets decreased by $8,398,302.
- As of June 30, 2003, the County governmental funds reported combined fund balances of $256,423,498, a decrease of $3,803,145 in comparison with the prior year. Approximately 76% of the combined fund balances, $195,410,472 is available to meet the County's current and future needs (*unreserved fund balance).*
- At the end of the fiscal year, unreserved fund balance for the general fund was $35,999,464, or 19% of total general fund expenditures and transfers.
- The County's total long-term debt decreased by $10,340,781 in comparison with the prior year. The decrease resulted primarily from scheduled principal retirements of the pension obligation bond and certificates of participation.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components 1) **Government-wide** financial statements; 2) **Fund** financial statements and 3) **Notes** to the basic financial statements. This report also contains other supplementary information.

Government-wide Financial Statements are designed to provide readers with a broad overview of County finances, in a manner similar to a private-sector business.

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont.)

Both of these government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, public protection, public ways and facilities, health and sanitation, public assistance, education and recreation. The business-type activities of the County include the Fink and Geer Road Landfills, Health Clinics and Ancillary Services, Stanislaus Behavioral Health Center, Inmate Welfare/Commissary and Transit.

The government-wide financial statements include not only the County (known as the primary government), but also legally separate entities (Component units) for which the County is financially accountable. There are four Component units included in these financial statements. The Redevelopment Agency, Stanislaus County Capital Improvements Financing Authority, and the Lighting Districts, although legally separate, function for all practical purposes as departments of the County and therefore, are included as an integral part of the primary government. The Modesto/Stanislaus Consolidated Emergency Dispatch component unit financial information is reported separately from the County.

The government-wide financial statements can be found on pages 15-17 of this report.

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

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

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

For the governmental funds, information is presented separately for the General Fund, Behavioral Health and Recovery, Community Services Agency, Public Facility Fees, and the Tobacco Settlement Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont.)

The County adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided in this report for the General fund and the major special revenue funds.

The governmental funds financial statements can be found on pages 18-31 of this report

Proprietary funds are divided into two types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The County uses enterprise funds to account for the Fink and Geer Road Landfills, Health Clinics and Ancillary Services, Stanislaus Behavioral Health Center, Inmate Welfare/Commissary and Transit activities. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the County's various functions. The County uses internal service funds to account for its self-insurance activities, Central Services, Fleet services, Technology and communication, and Morgan shop garage. All of these activities, except the professional liability self-insurance, predominantly benefit governmental functions and have been included within *governmental activities* in the government-wide financial statements. The Professional Liability Insurance predominantly benefits business type functions and is included within the *business-type* activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The Fink and Geer road landfills, and the Health Clinics and Ancillary services fund are considered to be major funds of the County. The County's internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

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

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

The fiduciary fund financial statements can be found on pages 36-37 of this report.

Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes can be found on pages 38-76 of this report.

The combining and individual fund statements referred to earlier provide information for non-major governmental funds, enterprise and internal service funds and are presented immediately following the notes to the financial statements. Combining and individual fund statements can be found on pages 79-93 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the County, assets exceeded liabilities by $650,750,384 at the close of the most recent fiscal year.

By far the largest portion of the County's net assets (77%) reflects its investment in capital assets (e.g., land, buildings, machinery, infrastructure, and equipment), less any related debt used to acquire those assets that is still outstanding. The County uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

	Governmental Activities		Business-type activities		Total	
	2003	2002	2003	2002	2003	2002
Current and other assets	$339,861,505	$314,530,586	$13,257,728	$15,515,121	$353,119,233	$330,045,707
Capital assets	594,875,200	586,793,860	24,761,035	24,635,244	619,636,235	611,429,104
Total assets	934,736,705	901,324,446	38,018,763	40,150,365	972,755,468	941,474,811
Long-term liabilities outstanding	225,865,344	233,459,774	22,320,494	20,711,534	248,185,838	254,171,308
Other liabilities	69,294,808	40,584,606	4,524,438	4,150,854	73,819,246	44,735,460
Total liabilities	295,160,152	274,044,380	26,844,932	24,862,388	322,005,084	298,906,768
Net assets:						
Invested in capital, net of related debt	479,642,785	466,709,321	22,276,120	22,441,843	501,918,905	489,151,164
Restricted	163,462,506	170,994,690	21,030,306	19,420,965	184,492,812	190,415,655
Unrestricted	(3,528,738)	(10,423,945)	(32,132,595)	(26,574,831)	(35,661,333)	(36,998,776)
Total net assets	$639,576,553	$627,280,066	$11,173,831	$15,287,977	$650,750,384	$642,568,043

Another significant portion of the County's net assets, $184,492,812, represents resources that are subject to external restrictions on how they may be used. These two portions of the net assets (invested in capital and restricted) equal greater than 100% of the total net assets, leaving a deficit of $(35,661,333).

The County's net assets decreased by $8.4 million during the current fiscal year. This decrease can be attributed to a $3.7 million dollar loss in the Health Clinic and Ancillary Services business activity and increased capital project spending in the governmental activities.

For business-type activities, the County reported a negative balance of ($32,132,595) in unrestricted net assets. This deficit is due primarily to the liability for closure/post-closure in the closed Geer Road landfill and the accumulated deficit in the Health Clinics and Ancillary Services fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont.)

Governmental activities Governmental activities decreased the County's net assets by $4.3 million, thereby accounting for 51% of the total decrease in net assets of the County.

The following table indicates the changes in net assets for governmental and business-type activities:

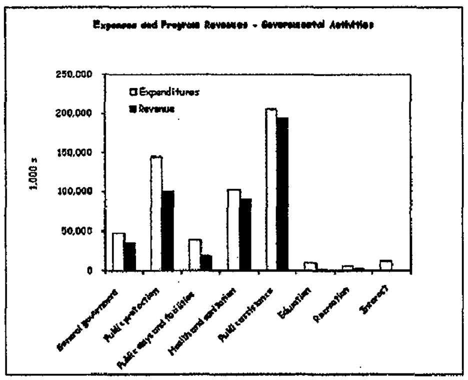
	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Revenues:						
Program revenues:						
Charges for services	$91,056,066	$94,515,279	$58,550,605	$56,562,907	$149,606,671	$151,078,186
Operating grants and contributions	332,085,792	340,536,926	514,380	808,097	332,600,172	341,345,023
Capital grants and contributions	23,552,188	19,854,710		2,322,034	23,552,188	22,176,744
General revenues:						
Property taxes	31,561,725	29,325,476			31,561,725	29,325,476
Sales taxes	26,468,757	23,656,194	1,892,035	1,606,502	28,360,792	25,262,696
Other taxes	2,918,028	2,603,661			2,918,028	2,603,661
Unrestricted investment earnings	3,646,615	5,476,077	2,571,919	1,979,239	6,218,534	7,455,316
Grants/contributions not restricted	34,395,428	32,450,247			34,395,428	32,450,247
Other general revenue	12,566,954	11,371,236		(11,801)	12,566,954	11,359,435
Total revenues	558,251,553	559,789,806	63,528,939	63,266,978	621,780,492	623,056,784
Expenses:						
General government	48,391,005	40,719,666			48,391,005	40,719,666
Public protection	143,930,821	136,575,084			143,930,821	136,575,084
Public ways and facilities	39,214,960	33,500,529			39,214,960	33,500,529
Health and sanitation	103,632,801	99,938,442			103,632,801	99,938,442
Public assistance	205,434,527	210,016,007			205,434,527	210,016,007
Education	9,628,228	8,979,780			9,628,228	8,979,780
Recreation	6,062,670	4,786,457			6,062,670	4,786,457
Interest on long-term debt	11,582,666	11,720,293			11,582,666	11,720,293
Landfills			7,659,100	7,184,548	7,659,100	7,184,548
Behavioral health			13,799,708	14,019,815	13,799,708	14,019,815
Health Clinics and Ancillary			37,321,847	36,353,822	37,321,847	36,353,822
Inmate Welfare and Commissary			1,437,906	1,317,672	1,437,906	1,317,672
Transit			2,082,555	1,951,513	2,082,555	1,951,513
Total expenses	567,877,678	546,236,258	62,301,116	60,827,370	630,178,794	607,063,628
Net asset increase (decrease) before transfers and special items	(9,626,125)	13,553,548	1,227,823	2,439,608	(8,398,302)	15,993,156
Special items		52,403,206				52,403,206
Transfers	5,341,969	2,379,750	(5,341,969)	(2,379,750)		
Change in net assets	(4,284,156)	68,336,504	(4,114,146)	59,858	(8,398,302)	68,396,362
Net assets – July 1, restated	643,860,709		15,287,977		659,148,686	
Net assets – July 1		558,943,562		15,228,119		574,171,681
Net assets – June 30	$639,576,553	$627,280,066	$11,173,831	$15,287,977	$650,750,384	$642,568,043

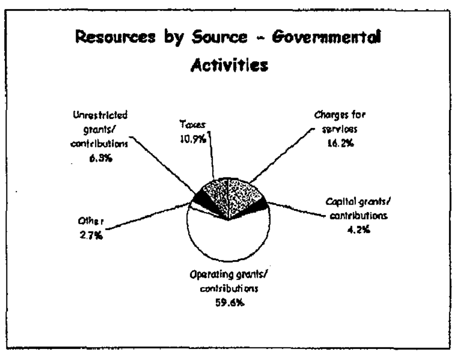
Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont.)

Key elements of the decrease in net assets for governmental activities are as follows:

- Revenues remained flat while expenditures increased overall by 4%.
- Redevelopment expenditures increased by $4.9 million to improve major storm drain lines and add a new storm drain basin as well as curbs, gutters and landscaping in the town of Salida. This was all financed with borrowed money. The ongoing redevelopment tax increment money received each year will provide the resources to pay for the debt.
- Recreation expenditures increased by $1 million for the county's portion of an improvement at the Woodward Reservoir park.
-

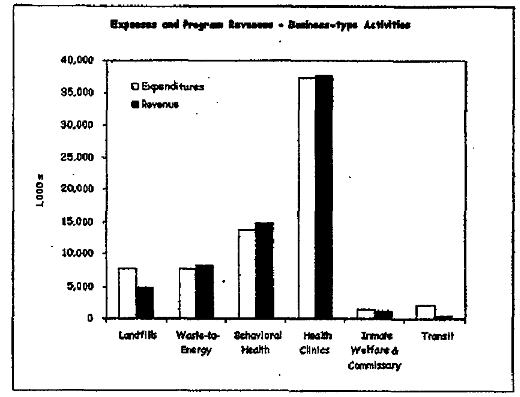


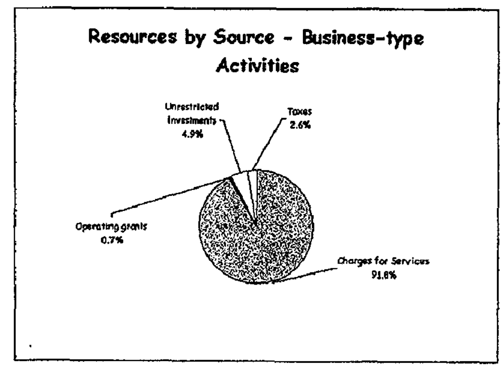


Management's Discussion and Analysis

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Cont.)

Business-type activities – Business-type activities decreased the County's net assets by $4.1 million or 49% of the total decrease in net assets. This decrease can be attributed mainly to the $3.7 million loss in the Health Clinics and Ancillary Services activity.





FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

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

Governmental funds. The general government functions are contained in the General, Special Revenue, Debt Service, and Capital Project Funds. Included in these funds are the special districts governed by the County Board of Supervisors. The focus of the County's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the County's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2003, the County's governmental funds reported combined fund balances of $256,423,498, a decrease of $3,803,145 in comparison with the prior year. This decrease can largely be attributed to the increase in Capital Project expenditures for the Salida storm drain and landscape improvements, the improvements to City Hall and the new Salida library, plus the beginnings of the new art center and related parking structure. Approximately 76% of the combined fund balances, $195,410,472 constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed:

1) to pay debt service ($14,047,088)
2) to liquidate contracts and purchase orders of the prior period ($18,830,444)
3) to reflect amount due from other funds that are long-term in nature and thus do not represent available spendable resources ($10,531,832)
4) to reflect amounts advanced to other governmental agencies that are long-term and do not represent available resources ($13,701,237)
5) for a variety of other restricted purposes ($3,902,425).

The general fund is the chief operating fund of the County. At June 30, 2003, unreserved fund balance of the general fund was $35,999,464 while total fund balance reached $59,940,770. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 19% of total fund expenditures and transfers, while total fund balance represents 32% of that same amount.

The County's management also designates (earmarks) unreserved fund balance to a particular function, project, activity or for purposes beyond the current year. However, designated fund balance is available for appropriation at any time. Of the $35.9 million General Fund unreserved fund balance, 59% is designated. Unreserved, undesignated fund balance at year-end was $14.6 million.

The total fund balance of the County's general fund increased by $4.1 million during the current fiscal year, largely due to fewer transfers out for debt service.

The debt service funds have a total fund balance of $15,406,642, of which 70% or $10,774,967 is reserved for the payment of debt service. The net decrease in fund balance during the current

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS (Cont.)

year in the debt service funds was $2,749,781. This decrease was due to Pension Obligation Bond payments exceeding revenue collection.

Proprietary funds. The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The following table shows actual revenues, expenses and results of operations for the current fiscal year:

Proprietary Funds

	Major Funds			Non-major	
	Fink Road Landfill	**Geer Road Landfill**	**Health Clinics & Ancillary**	**Other Enterprise Funds**	**Total**
Operating revenues	$4,793,868	$ 0	$37,576,983	$16,179,759	$58,550,610
Operating expenses	6,966,115	692,984	36,410,687	17,307,151	61,376,937
Operating income (loss)	(2,172,247)	(692,984)	1,166,296	(1,127,392)	(2,826,327)
Non-operating revenues (expenses), net	2,180,896	186,239	(394,113)	2,246,875	4,219,897
Net income (loss) before contributions and transfers	8,649	(506,745)	772,183	1,119,483	1,393,570
Contributions and transfers	(475,078)	450,000	(4,488,296)	(828,593)	(5,341,967)
Net income (loss)	($466,429)	($56,745)	($3,716,113)	$290,890	($3,948,397)

The net loss in the Fink Road Landfill was due to an increase in closure/postclosure liability. The loss in the Geer Road Landfill is due to a decrease in investment income. The Health Clinics and Ancillary fund loss is due to expenses exceeding revenue.

GENERAL FUND BUDGETARY HIGHLIGHTS

The County appropriated $2.2 million for contingencies and departmental reserves as part of administrative policy. At year-end, revenues exceeded budgetary estimates in the General Fund by $12 million and expenditures were less than budgetary estimates, thus eliminating the need to draw upon existing fund balance for budget increases.

During the year, appropriations were increased by $3,577,080 resulting in a difference between the original budget and the final amended budget. This increase was primarily due to amendments to the public protection budgets of the Sheriff, District Attorney, Agricultural Commissioner and Public Defender.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets

The County's investment in capital assets for its governmental and business-type activities as of June 30, 2003, amounted to $619,636,235 (net of accumulated depreciation). This investment in

CAPITAL ASSETS AND DEBT ADMINISTRATION (Cont.)

capital assets includes land and easements, roads, highways, bridges, park facilities, buildings and improvements, and equipment. The County's total investment in capital assets for the current period increased by $8.2 million due to the addition of infrastructure not included in 2001/02.

Major capital asset events during the 2002/03 fiscal year included the following:

- Completion of $2 million in renovations to an existing building in Salida for a new branch library and community center meeting facility. The Salida library opened in April of 2003.
- As part of an overall downtown Modesto improvement plan, the former city hall building was remodeled into County offices for the Sheriff's civil unit and alternative work program, the Adult Probation department, and the Strategic Business Technology department for $3.6 million. Also preliminary work was begun on a new arts center and related parking structure for $2.8 million.
- Major public works projects included a $4 million widening of Albers Road and $4.5 million improvements to Shackelford Road.

Capital assets for the governmental and business-type activities are presented below to illustrate changes from the prior year:

County of Stanislaus Capital Assets
(net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2003	2002	2003	2002	2003	2002
Land and easements	$ 28,327,968	$ 27,995,206	$ 14,399,808	$ 14,399,810	$ 42,727,776	$ 42,395,016
Buildings and improvements	135,418,336	130,795,997	7,735,953	8,065,875	143,154,289	138,861,872
Equipment	16,140,932	14,497,896	2,625,274	2,169,559	18,766,206	16,667,455
Infrastructure	414,987,964	413,504,761	-	-	414,987,964	413,504,761
Total	$ 594,875,200	$ 586,793,860	$ 24,761,035	$ 24,635,244	$ 619,636,235	$ 611,429,104

Long-term debt

At June 30, 2003, the County had total long-term debt outstanding of $182,705,000. The decrease of $10.3 million from last year's outstanding debt is a result of scheduled principal payments.

Our long-term debt ratings are an "A-" from Standard and Poor's Corporation and an "A" from Moody's Investor service.

County of Stanislaus
Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2003	2002	2003	2002	2003	2002
Certificates of Participation	$ 89,645,344	$ 94,826,893	$ 1,454,656	$ 1,552,888	$ 91,100,000	$ 96,379,781
Pension Obligation Bonds	87,080,000	92,105,000			87,080,000	92,105,000
Loan Anticipation Note	4,525,000	4,525,000			4,525,000	4,525,000
Total	$ 181,250,344	$191,456,893	$ 1,454,656	$ 1,552,888	$ 182,705,000	$ 193,009,781

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The following factors were considered in preparing the County's budget for fiscal year 2003/04:

- The slow national and state economy and state budget deficit of the past year have resulted in the County reducing the budget during 2002/03 and further reducing it in 2003/04.
- Property tax revenue, which represents 25% of the General fund discretionary revenue, is budgeted in 2003/04 with no growth or at the same level as actual receipts in 2002/03.
- The County's Final Budget for 2003/04 was based on a proposed State budget in June 2003. It was known at the time that significant changes to the State budget were likely. The County plans to examine its budget at mid-year and make the necessary adjustments.
- The financial position of the Health Services Agency Clinics and Ancillary services enterprise fund has deteriorated $3.7 million more this fiscal year. The County's plan to eliminate the $22 million net asset deficit is to reclassify a loan from another fund to revenue ($8 million) and to use a portion of the interest generated from the tobacco endowment funds each year to reduce the deficit. This plan relies on the clinics to break even each year. Depending on the market conditions, it is estimated to take until 2015 for the tobacco endowment funds to earn the necessary interest.

Since the County budget was adopted, the following economic conditions have materialized:

- The unemployment rate in the County for August 2003 was 9.3% up from last year's August rate of 8.6% and compared to the 6.5% rate for the State of California
- Unrestricted vehicle license fees, about 25% of the General fund discretionary revenue will be reduced approximately $8.0 million in 2003/04 through actions the State took to deal with their own budget deficit. With the change of governor, this loss could increase depending on the new administration's actions.

During the current fiscal year, unreserved, undesignated fund balance in the general fund increased to $14.6 million mainly due to a decrease in transfers out for debt service and for the Community Services Agency. The County has appropriated $12.7 million of this fund balance for spending in the 2004 fiscal year budget.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Auditor-Controller's Office, 1010 Tenth Street, Suite 5100, P.O. Box 770, Modesto, CA 95353.

Questions or requests for additional information regarding the discretely presented component unit, Modesto/Stanislaus Consolidated Emergency Dispatch, should be addressed to the Office Manager, 3705 Oakdale Road, Modesto, CA 95357.

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Basic Financial Statements

County of Stanislaus
Statement of Net Assets
June 30, 2003

	Primary Government			Component Unit
	Governmental Activites	Business-type Activities	Total	Emergency Dispatch
ASSETS				
Cash and investments	$ 135,790,347	$ 11,276,960	$ 147,067,307	$ 455,239
Cash with fiscal agent	83,979,398		83,979,398	
Taxes receivable	105,364		105,364	
Accounts receivable	53,407,400	11,772,221	65,179,621	862,515
Interest and other receivables	5,215,122	122,381	5,337,503	2,851
Deposit with others	672,375		672,375	
Deferred charges	87,539		87,539	
Inventories	754,986	427,350	1,182,336	
Prepaid items	343,244	152,650	495,894	
Advances to other governments	13,701,237		13,701,237	
Intergovernmental receivables	1,729,037		1,729,037	
Internal balances	28,788,202	(28,788,202)		
Restricted cash and investments	15,287,254	18,294,368	33,581,622	
Capital assets: (net of accumulated depreciation)				
Land	28,327,968	14,399,808	42,727,776	
Infrastructure	414,987,964		414,987,964	
Building and improvements	135,418,336	7,735,953	143,154,289	2,522,367
Equipment	16,140,932	2,625,274	18,766,206	930,633
Total capital assets	594,875,200	24,761,035	619,636,235	3,453,000
Total assets	934,736,705	38,018,763	972,755,468	4,773,605
LIABILITIES				
Accounts payable	15,687,111	3,226,980	18,914,091	20,245
Salaries and benefits payable	8,805,379	1,268,841	10,074,220	168,163
Interest payable	3,817,520		3,817,520	
Deferred revenue	10,966,980		10,966,980	
Deposits from others	17,818	28,617	46,435	
Tax revenue anticipation note	30,000,000		30,000,000	
Long-term liabilities:				
Portion due or payable within one year:				
Compensated absences - current	626,392	80,921	707,313	15,081
Risk management liability - current	8,150,492	117,396	8,267,888	
Capital leases - current	493,977	388,713	882,690	
Long-term obligations - current	15,350,536	134,464	15,485,000	
Portion due or payable after one year:				
Risk management liability	12,467,977	541,604	13,009,581	
Capital leases payable	560,335	641,547	1,201,882	
Compensated absences	22,315,825	1,705,188	24,021,013	532,532
Long-term obligations	165,899,808	1,320,192	167,220,000	
Estimated cost of landfill closure/postclosure		17,390,469	17,390,469	
Total liabilities	295,160,152	26,844,932	322,005,084	736,021
NET ASSETS				
Investment in capital assets, net of related debt	479,642,785	22,276,120	501,918,905	3,453,000
Restricted for:				
Capital projects	102,534,957		102,534,957	
Debt service	10,774,967	200,338	10,975,305	
Other purposes	50,152,582	20,829,968	70,982,550	
Unrestricted (deficit)	(3,528,738)	(32,132,595)	(35,661,333)	584,584
Total net assets	$ 639,576,553	$ 11,173,831	$ 650,750,384	$ 4,037,584

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

County of Stanislaus
Statement of Activities
For the Year Ended June 30, 2003

		Program Revenues		
Functions/Programs	Expenses	Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government				
Governmental activities:				
General government	$ 48,391,005	$ 23,686,029	$ 10,952,722	$ 703,473
Public protection	143,930,821	33,973,505	64,024,458	4,062,477
Public ways and facilities	39,214,960	1,990,484		16,714,211
Health and sanitation	103,632,801	24,778,203	66,011,224	582,449
Public assistance	205,434,527	4,139,918	190,135,002	
Education	9,628,228	387,553	608,042	1,067,154
Recreation	6,062,670	2,100,374	354,344	422,424
Interest and fiscal charges on long-term debt	11,582,666			
Total governmental activities	567,877,678	91,056,066	332,085,792	23,552,188
Business-type activities:				
Landfills	7,659,100	4,793,867		
Behavioral Health	13,799,708	14,756,842	39,919	
Health Clinics & Ancillary	37,321,847	37,576,983	280,187	
Inmate Welfare and Commissary	1,437,906	1,226,081		
Transit	2,082,555	196,832	194,274	
Total business-type activities	62,301,116	58,550,605	514,380	
Total Stanislaus County	$ 630,178,794	$ 149,606,671	$ 332,600,172	$ 23,552,188
Component unit:				
Emergency Dispatch	$ 5,505,476	$ 5,166,569	$	$ 256,468

General revenues:
- Taxes:
  - Property taxes
  - Property taxes - unsecured
  - Sales taxes
  - Sales taxes - library
  - Sales taxes - road
  - Other taxes
- Franchise fees
- Payment in lieu of taxes:
  - Motor vehicle license
  - Open space subvention
- Unrestricted investment earnings
- Miscellaneous
- Net transfers

Total general revenues and transfers

Changes in net assets

Net assets--beginning

Net assets--ending

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

County of Stanislaus
Statement of Activities
For the Year Ended June 30, 2003

Net (Expense) Revenue and Changes in Net Assets				
Primary Government			Component Unit	
Governmental Activities	Business-Type Activities	Total	Emergency Dispatch	Functions/Programs
				Primary government
				Governmental activities:
$ (13,048,781)	$	$ (13,048,781)		General government
(41,870,381)		(41,870,381)		Public protection
(20,510,265)		(20,510,265)		Public ways and facilities
(12,260,925)		(12,260,925)		Health and sanitation
(11,159,607)		(11,159,607)		Public assistance
(7,565,479)		(7,565,479)		Education
(3,185,528)		(3,185,528)		Recreation
(11,582,666)		(11,582,666)		Interest and fiscal charges on long-term debt
(121,183,632)		(121,183,632)		Total governmental activities
				Business-type activities:
	(2,865,233)	(2,865,233)		Landfills
	997,053	997,053		Behavioral Health
	535,323	535,323		Health Clinics & Ancillary
	(211,825)	(211,825)		Inmate Welfare and Commissary
	(1,691,449)	(1,691,449)		Transit
	(3,236,131)	(3,236,131)		Total business-type activities
$ (121,183,632)	$ (3,236,131)	$ (124,419,763)		**Total Stanislaus County**
				Component unit:
$	$	$	$ (82,439)	Emergency Dispatch
				General revenues:
				Taxes:
30,146,039		30,146,039		Property taxes
1,415,686		1,415,686		Property taxes - unsecured
17,515,505	1,892,035	19,407,540		Sales taxes
7,036,979		7,036,979		Sales taxes - library
1,916,273		1,916,273		Sales taxes - road
2,918,028		2,918,028		Other taxes
918,309		918,309		Franchise fees
				Payment in lieu of taxes:
32,658,197		32,658,197		Motor vehicle license
1,737,231		1,737,231		Open space subvention
3,646,615	2,571,919	6,218,534	85,426	Unrestricted investment earnings
11,648,645		11,648,645		Miscellaneous
5,341,969	(5,341,969)			Net transfers
116,899,476	(878,015)	116,021,461	85,426	Total general revenues and transfers
(4,284,156)	(4,114,146)	(8,398,302)	2,987	Changes in net assets
643,860,709	15,287,977	659,148,686	4,034,597	Net assets--beginning
$ 639,576,553	$ 11,173,831	$ 650,750,384	$ 4,037,584	Net assets--ending

County of Stanislaus
Balance Sheet
Governmental Funds
June 30, 2003

	General Fund	Behavioral Health and Recovery	Community Services Agency	Public Facility Fees	Tobacco Settlement	Other Governmental Funds	Totals Governmental Funds
Assets:							
Pooled cash and investments	$ 8,228,524	$ 4,192,275	$ 1,547,785	$ 41,207,221	$	$ 64,414,245	$ 119,590,050
Cash with fiscal agent	30,000,000				53,979,399	14,047,088	98,026,487
Taxes receivable	105,364						105,364
Accounts receivable	14,488,377	7,712,951	11,135,135			19,641,786	52,978,249
Interest and other receivables	333,786	23,355		170,376		212,230	739,747
Interfund receivable	30,267,672						30,267,672
Due from other funds		340,105	24,996			200,067	565,168
Due from other governments	1,729,037						1,729,037
Deposit with others	8,645						8,645
Inventory						378,328	378,328
Deferred charges						79,500	79,500
Advance to other governments	11,701,237					2,000,000	13,701,237
Advances to other funds	501,350	2,640,000				7,390,482	10,531,832
Prepaid items		71,495				271,749	343,244
Restricted cash and investments	1,240,166						1,240,166
Total assets	$ 98,604,158	$ 14,980,181	$ 12,707,916	$ 41,377,597	$ 53,979,399	$ 108,635,475	$ 330,284,726
Liabilities and fund balances							
Liabilities							
Accounts payable	$ 3,296,069	$ 4,646,337	$ 332,502			$ 5,953,400	$ 14,228,308
Salaries and benefits payable	3,735,224	976,000	1,600,633			2,282,315	8,594,172
Tax revenue anticipation note	30,000,000						30,000,000
Interfund payable						5,509,656	5,509,656
Due to other funds	369,674	304,314				728,956	1,402,944
Deposits from others						17,818	17,818
Deferred revenue	1,262,421	801,920	8,679,432			223,207	10,966,980
Advances from other funds		2,640,000				501,350	3,141,350
Total liabilities	38,663,388	9,368,571	10,612,567			15,216,702	73,861,228
Fund balances:							
Reserved for:							
Encumbrances	8,604,598	898,674	14,474			9,312,698	18,830,444
Advance to other funds	501,350	2,640,000				7,390,482	10,531,832
Advance to other government	11,701,237					2,000,000	13,701,237
Other	3,134,121	80,130	27,150			661,024	3,902,425
Cash with fiscal agent						14,047,088	14,047,088
Unreserved:							
Designated for:							
Debt service	9,757,589						9,757,589
Contingencies	11,644,467						11,644,467
Reported in :							
General fund	14,597,408						14,597,408
Special revenue fund		1,992,806	2,053,725		53,979,399	49,663,287	107,689,217
Capital project funds				41,377,597		5,712,519	47,090,116
Debt service funds						4,631,675	4,631,675
Total fund balances	59,940,770	5,611,610	2,095,349	41,377,597	53,979,399	93,418,773	256,423,498
Total liabilities and fund balances	$ 98,604,158	$ 14,980,181	$ 12,707,916	$ 41,377,597	$ 53,979,399	$ 108,635,475	$ 330,284,726

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

County of Stanislaus
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2003

Total fund balances for governmental funds (page 18)		$ 256,423,498
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activites are not financial resources and, therefore, are not reported in the funds. These assets consist of:		
Land	$ 28,327,968	
Infrastructure	414,987,963	
Buildings and improvements	134,477,100	
Equipment	11,906,111	
Total capital assets		589,699,142
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds		8,039
Internal service funds are used by the County to charge the cost of general liability, unemployment, worker's compensation, dental, vision, & purchased insurance plus Central services, Fleet services, Technology & communication and Morgan garage to individual funds. The assets and liabilities of these internal service funds are included in governmental activities in the statement of net assets.		(2,817,002)
Some of the County's revenues will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are not recognized as revenue in the funds.		4,411,436
Long-term liabilities applicable to the County's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities--both current and long-term--are reported in the statement of net assets. Balances at June 30, 2003 are:		
Certificates of participation	(94,170,344)	
Bonds and note payable	(87,080,000)	
Capital leases	(764,871)	
Accrued interest on long term debt	(3,817,520)	
Compensated absences	(22,315,825)	
Total long-term liabilities		(208,148,560)
Net assets of governmental activities (page 15)		639,576,553

The notes to the financial statements are an integral part of this statement.

County of Stanislaus
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	General Fund	Behavioral Health and Recovery	Community Services Agency	Public Facility Fees	Tobacco Settlement	Other Governmental Funds	Totals Governmental Funds
REVENUES:							
Taxes	$ 49,002,479	$	$	$	$	$ 11,946,026	$ 60,948,505
Licenses, permits and franchises	1,689,813		66,369			1,650,648	3,406,830
Fines, forfeitures and penalties	6,266,245	102,160				1,625,259	7,993,664
Revenue from use of money and property	2,921,212	261,938	1,632	1,107,985	1,525,567	2,090,630	7,908,954
Intergovernmental revenue	89,133,714	33,898,156	172,315,400			84,314,355	379,661,625
Charges for services	33,482,876	21,008,983	666,129	9,321,123		20,210,235	84,689,346
Miscellaneous revenue	7,753,913	293,781	976,325	(9,858)		2,634,484	11,648,645
Total revenues	190,250,252	55,565,018	174,025,845	10,419,250	1,525,567	124,471,637	556,257,569
EXPENDITURES:							
Current:							
General	30,938,008					8,104,566	39,042,574
Public protection	96,980,176	1,107,477				42,271,494	140,359,147
Public ways and facilities						24,703,267	24,703,267
Health and sanitation	3,939,628	62,341,045				37,578,937	103,859,610
Public assistance	306,900		183,109,662			21,115,921	204,532,483
Education	330,482					9,118,681	9,449,163
Recreation and cultural services	5,374,777					58,254	5,433,031
Capital outlay				97,756		17,742,589	17,840,345
Debt service:							
Interest and fiscal charges						11,207,951	11,207,951
Principal						10,208,176	10,208,176
Total expenditures	137,869,971	63,448,522	183,109,662	97,756		182,109,836	566,635,747
Excess revenues over (under) expenditures	52,380,281	(7,883,504)	(9,083,817)	10,321,494	1,525,567	(57,638,199)	(10,378,178)
OTHER FINANCING SOURCES (USES)							
Capital lease proceeds	51,026	16,975	170,116			52,821	290,938
Transfers in	2,614,410	8,258,289	8,438,800			56,097,678	75,409,177
Transfers out	(50,942,182)	(1,276,240)	(1,838,002)	(5,748,187)	(202,630)	(9,406,481)	(69,413,722)
Sale of fixed assets	1,989					286,651	288,640
Total other financing sources (uses)	(48,274,757)	6,999,024	6,770,914	(5,748,187)	(202,630)	47,030,669	6,575,033
Net change in fund balances	4,105,524	(884,480)	(2,312,903)	4,573,307	1,322,937	(10,607,530)	(3,803,145)
Fund balance at beginning of year	55,835,246	6,496,090	4,408,252	36,804,290	52,656,462	104,026,303	260,226,643
Fund balances at end of year	$ 59,940,770	$ 5,611,610	$ 2,095,349	$ 41,377,597	$ 53,979,399	$ 93,418,773	$ 256,423,498

The notes to the financial statements are an integral part of this statement.

County of Stanislaus
Reconciliation of the
Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental funds
to the Government-wide Statement of Activities - Governmental Activities
For the Fiscal Year Ended June 30, 2003

Net change in fund balances - total governmental funds (page 20)		$ (3,803,145)
The change in net assets reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditures for capital assets and infrastructure	23,083,820	
Less sale of fixed assets	(570,279)	
Less current year depreciation	(31,186,008)	(8,672,467)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		1,496,720
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets		
Repayments:		
Certificate of participation	5,183,176	
Pension obligation bond	5,025,000	
Capital lease	372,778	10,580,954
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Change in accrued interest payable	(374,714)	
Change in compensated absences	(45,042)	
Change in deferred charges	(48,236)	(467,992)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net expense of certain activities of the internal service funds is reported with governmental activities.		(3,418,226)
Change in net assets of governmental activities (page 17)		(4,284,156)

The notes to the financial statements are an integral part of this statement.

County of Stanislaus
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund
Budget and Actual on Budgetary Basis
For the fiscal year ended June 30, 2003

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
Revenues:				
Taxes	$ 45,026,700	$ 46,176,700	$ 49,002,483	$ 2,825,783
Licenses, permits and franchises	1,592,865	1,592,865	1,689,813	96,948
Fines, forfeitures and penalties	3,611,127	3,339,245	6,266,245	2,927,000
Revenue from use of money and property	4,771,892	4,846,892	2,921,212	(1,925,680)
Intergovernmental revenue	85,431,818	86,577,836	89,133,714	2,555,878
Charges for services	33,323,111	33,865,610	33,482,876	(382,734)
Miscellaneous revenue	969,412	969,412	7,753,913	6,784,501
Total revenues	174,726,925	177,368,560	190,250,256	12,881,696
Expenditures: General				
Assessor				
Salaries and employee benefits	3,241,539	3,259,836	3,144,584	115,252
Services and supplies	90,652	92,813	63,049	29,764
Other charges	459,710	447,710	502,232	(54,522)
Expenditure transfer	40,891	40,891	27,238	13,653
Fixed assets	2,160		(2,160)	2,160
Total expenditures	3,834,952	3,841,250	3,734,943	106,307
Assessor Property Tax Computer				
Salaries and employee benefits				
Services and supplies	123,000	123,000	(33,362)	156,362
Other charges	7,500	7,500	(7,500)	15,000
Expenditure transfer				
Appropriations for contingencies				
Fixed assets	55,700	65,076	8,059	57,017
Total expenditures	186,200	195,576	(32,803)	228,379
Auditor-Controller				
Salaries and employee benefits	2,813,402	2,813,402	2,686,883	126,519
Services and supplies	225,035	225,035	137,382	87,653
Other charges	330,830	470,830	446,928	23,902
Expenditure transfer	3,254	3,254	(6,109)	9,363
Fixed assets				
Total expenditures	3,372,521	3,512,521	3,265,084	247,437
Board of Supervisors				
Salaries and employee benefits	972,609	972,609	930,613	41,996
Services and supplies	162,177	163,177	159,338	3,839
Other charges	79,013	78,013	83,297	(5,284)
Expenditure transfer	18,976	18,976	12,228	6,748
Fixed assets				
Total expenditures	1,232,775	1,232,775	1,185,476	47,299
Administrative Office				
Salaries and employee benefits	3,246,045	3,511,045	3,391,237	119,808
Services and supplies	520,433	325,433	243,601	81,832
Other charges	426,741	382,997	365,418	17,579
Expenditure transfer	21,706	21,706	5,815	15,891
Fixed assets	15,000	46,650	42,556	4,094
Total expenditures	4,229,925	4,287,831	4,048,627	239,204
Economic Development				
Salaries and employee benefits				
Services and supplies	462,360	601,360	333,909	267,451
Other charges	23,340	23,340	15,218	8,122
Expenditure transfer				
Fixed assets	25,000	8,142	(25,000)	33,142
Total expenditures	510,700	632,842	324,127	308,715

(Continued)

County of Stanislaus
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund (Continued)
Budget and Actual on Budgetary Basis
For the fiscal year ended June 30, 2003

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
Expenditures: General				
Purchasing Agent				
Salaries and employee benefits	520,085	520,085	483,035	37,050
Services and supplies	19,865	19,865	8,969	10,896
Other charges	29,897	29,897	22,150	7,747
Expenditure transfer	3,458	3,458	4,424	(966)
Fixed assets				
Total expenditures	573,305	573,305	518,578	54,727
C.A.R.E. Unit				
Salaries and employee benefits				
Services and supplies	698,239	691,239	41,326	649,913
Other charges	25,211	25,211	7,259	17,952
Expenditure transfer	5,725	12,725	13,543	(818)
Fixed assets				
Total expenditures	729,175	729,175	62,128	667,047
Risk Management				
Salaries and employee benefits	1,017,860	1,017,860	977,301	40,559
Services and supplies	56,840	56,840	21,916	34,924
Other charges	99,589	77,589	76,385	1,204
Expenditure transfer	4,800	4,800	710	4,090
Fixed assets				
Total expenditures	1,179,089	1,157,089	1,076,312	80,777
Special Projects				
Salaries and employee benefits				
Services and supplies	2,738,013	1,329,213	(287,927)	1,617,140
Other charges	83,720	23,720	1,471	22,249
Expenditure transfer				
Fixed assets	9,000	209,000	208,077	923
Total expenditures	2,830,733	1,561,933	(78,379)	1,640,312
Capital Improvement Financing Authority				
Salaries and employee benefits	52,000	261,308	261,308	
Services and supplies	265,669	56,361	50,209	6,152
Other charges				
Expenditure transfer				
Fixed assets				
Total expenditures	317,669	317,669	311,517	6,152
Plant Acquisition				
Salaries and employee benefits		42,560	42,560	
Services and supplies	1,168,655	981,531	191,312	790,219
Other charges	1,211,731	1,322,295	1,207,094	115,201
Expenditure transfer			20	(20)
Fixed assets	3,755,699	3,495,099	899,553	2,595,546
Total expenditures	6,136,085	5,841,485	2,340,539	3,500,946
Appropriations for Contingencies				
Salaries and employee benefits				
Services and supplies				
Other charges				
Expenditure transfer				
Appropriations for contingencies	2,199,000	2,028,976	50,000	1,978,976
Fixed assets				
Total expenditures	2,199,000	2,028,976	50,000	1,978,976

(Continued)

County of Stanislaus
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund (Continued)
Budget and Actual on Budgetary Basis
For the fiscal year ended June 30, 2003

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
Expenditures: General				
County Facilities				
Salaries and employee benefits				
Services and supplies	399,989	399,939	238,980	160,959
Other charges	50	100	96	4
Expenditure transfer				
Fixed assets	50,000	50,000		50,000
Total expenditures	450,039	450,039	239,076	210,963
Elections Division				
Salaries and employee benefits	607,174	615,338	518,997	96,341
Services and supplies	921,821	900,378	803,339	97,039
Other charges	56,996	61,996	48,140	13,856
Expenditure transfer	15,201	90,844	90,953	(109)
Fixed assets		64,000	64,000	
Total expenditures	1,601,192	1,732,556	1,525,429	207,127
County Counsel				
Salaries and employee benefits	1,456,470	1,488,783	1,460,578	28,205
Services and supplies	74,414	74,414	56,135	18,279
Other charges	50,529	50,529	44,835	5,694
Expenditure transfer	12,162	12,161	12,021	140
Fixed assets				
Total expenditures	1,593,574	1,625,887	1,573,569	52,318
Treasurer and Tax Collector				
Salaries and employee benefits	777,414	757,414	698,696	58,718
Services and supplies	74,367	94,367	83,496	10,871
Other charges	368,701	292,701	259,901	32,800
Expenditure transfer	84,315	84,315	62,921	21,394
Fixed assets				
Total expenditures	1,304,797	1,228,797	1,105,014	123,783
Collections				
Salaries and employee benefits	917,896	862,896	803,395	59,501
Services and supplies	102,627	120,487	118,340	2,147
Other charges	176,111	188,111	191,254	(3,143)
Expenditure transfer	(665,983)	(665,983)	(600,330)	(65,653)
Fixed assets				
Total expenditures	530,651	505,511	512,659	(7,148)
CEO Match - Other Agencies				
Salaries and employee benefits				
Services and supplies				
Other charges	1,168,602	1,518,602	1,256,524	262,078
Expenditure transfer				
Fixed assets				
Total expenditures	1,168,602	1,518,602	1,256,524	262,078
CEO HCD Grant				
Salaries and employee benefits				
Services and supplies	456,463	456,463	(1)	456,464
Other charges				
Expenditure transfer				
Fixed assets				
Total expenditures	456,463	456,463	(1)	456,464

(Continued)

County of Stanislaus
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund (Continued)
Budget and Actual on Budgetary Basis
For the fiscal year ended June 30, 2003

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
Expenditures: General				
Treasury				
Salaries and employee benefits	238,377	238,377	225,431	12,946
Services and supplies	215,975	210,975	188,764	22,211
Other charges	28,269	28,269	18,157	10,112
Expenditure transfer	57,604	62,604	59,660	2,944
Fixed assets				
Total expenditures	540,225	540,225	492,012	48,213
Facility Maintenance				
Salaries and employee benefits	3,002,009	3,063,498	2,981,826	81,672
Services and supplies	4,240,265	4,300,265	4,206,803	93,462
Other charges	225,858	279,369	275,418	3,951
Expenditure transfer	(1,851,404)	(1,851,404)	(1,618,715)	(232,689)
Fixed assets				
Total expenditures	5,616,728	5,791,728	5,845,332	(53,604)
CEO - Econ Development Bank				
Salaries and employee benefits				
Services and supplies	1,375,000	2,716,300	1,654,960	1,061,340
Other charges	125,000	250,000	20,000	230,000
Expenditure transfer				
Fixed assets				
Total expenditures	1,500,000	2,966,300	1,674,960	1,291,340
Expenditures: Public Protection				
Agricultural Commissioner				
Salaries and employee benefits	1,802,028	2,153,811	2,081,941	71,870
Services and supplies	201,104	370,195	242,810	127,385
Other charges	146,850	187,603	181,275	6,328
Expenditure transfer	172,845	172,845	159,563	13,282
Fixed assets		30,000	28,364	1,636
Total expenditures	2,322,827	2,914,454	2,693,953	220,501
Animal Services				
Salaries and employee benefits	1,692,207	1,584,912	1,543,695	41,217
Services and supplies	258,874	337,874	336,616	1,258
Other charges	184,311	189,311	184,425	4,886
Expenditure transfer	10,350	10,350	2,674	7,676
Fixed assets				
Total expenditures	2,145,742	2,122,447	2,067,410	55,037
Office of Emergency Services				
Salaries and employee benefits	362,292	342,625	231,234	111,391
Services and supplies	105,576	266,011	182,453	83,558
Other charges	740,566	628,131	654,984	(26,853)
Expenditure transfer				
Fixed assets	51,984	46,984	26,146	20,838
Total expenditures	1,260,418	1,283,751	1,094,817	188,934
County Court Funding				
Salaries and employee benefits				
Services and supplies	168,061	168,061	160,142	7,919
Other charges	5,676,115	5,824,115	5,824,119	(4)
Expenditure transfer	834,516	804,516	744,842	59,674
Fixed assets				
Total expenditures	6,678,692	6,796,692	6,729,103	67,589

(Continued)

County of Stanislaus
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund (Continued)
Budget and Actual on Budgetary Basis
For the fiscal year ended June 30, 2003

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
Expenditures: Public Protection				
Recorder Division				
Salaries and employee benefits	1,088,416	1,059,206	918,571	140,635
Services and supplies	149,105	93,462	77,091	16,371
Other charges	121,431	133,641	138,003	(4,362)
Expenditure transfer	20,816	96,459	100,299	(3,840)
Fixed assets	30,000	30,000	30,000	
Total expenditures	1,409,768	1,412,768	1,263,964	148,804
District Attorney				
Salaries and employee benefits	7,427,356	7,936,092	7,673,685	262,407
Services and supplies	264,670	348,641	271,063	77,578
Other charges	485,802	468,802	497,201	(28,399)
Expenditure transfer	55,237	55,237	57,096	(1,859)
Fixed assets				
Total expenditures	8,233,065	8,808,772	8,499,045	309,727
Planning				
Salaries and employee benefits	1,057,802	1,053,691	955,195	98,496
Services and supplies	618,807	767,183	155,075	612,108
Other charges	50,370	56,105	53,690	2,415
Expenditure transfer	14,448	14,448	9,629	4,819
Fixed assets				
Total expenditures	1,741,427	1,891,427	1,173,589	717,838
Probation				
Salaries and employee benefits	1,097,351	1,051,351	1,011,851	39,500
Services and supplies	1,051,548	1,045,548	606,926	438,622
Other charges	633,685	685,685	641,922	43,763
Expenditure transfer			570	(570)
Fixed assets	51,503	51,503	9,812	41,691
Total expenditures	2,834,087	2,834,087	2,271,081	563,006
Probation - Casework				
Salaries and employee benefits	5,702,980	5,816,824	5,524,368	292,456
Services and supplies	312,063	303,063	282,508	20,555
Other charges	276,791	276,791	269,400	7,391
Expenditure transfer	84,438	84,438	105,496	(21,058)
Fixed assets	61,296	41,296	(2,492)	43,788
Total expenditures	6,437,568	6,522,412	6,179,280	343,132
Probation - Institutions				
Salaries and employee benefits	4,633,071	4,716,071	4,503,800	212,271
Services and supplies	229,431	154,431	105,383	49,048
Other charges	128,869	164,869	164,667	202
Expenditure transfer	544,071	659,071	667,871	(8,800)
Fixed assets	134,648	31,648	(29,300)	60,948
Total expenditures	5,670,090	5,726,090	5,412,421	313,669
Public Defender				
Salaries and employee benefits	3,537,337	3,537,337	3,377,166	160,171
Services and supplies	422,466	422,466	325,417	97,049
Other charges	202,236	181,980	141,226	40,754
Expenditure transfer	62,222	62,222	188,645	(126,423)
Fixed assets	117	117		117
Total expenditures	4,224,378	4,204,122	4,032,454	171,668

(Continued)

County of Stanislaus
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund (Continued)
Budget and Actual on Budgetary Basis
For the fiscal year ended June 30, 2003

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
Expenditures: Public Protection				
Indigent Defense				
Salaries and employee benefits				
Services and supplies	1,477,860	1,777,860	1,739,684	38,176
Other charges	330	330		330
Expenditure transfer				
Fixed assets				
Total expenditures	1,478,190	1,778,190	1,739,684	38,506
Sheriff's Administration				
Salaries and employee benefits	1,532,111	1,500,283	1,394,789	105,494
Services and supplies	536,414	511,414	393,118	118,296
Other charges	274,390	254,390	260,064	(5,674)
Expenditure transfer	8,851	8,851	(400)	9,251
Fixed assets				
Total expenditures	2,351,766	2,274,938	2,047,571	227,367
Sheriff's Operations				
Salaries and employee benefits	21,627,742	22,600,358	21,382,120	1,218,238
Services and supplies	1,655,407	1,476,407	1,244,300	232,107
Other charges	3,822,851	3,822,851	3,685,155	137,696
Expenditure transfer	(296,833)	(296,833)	(351,519)	54,686
Fixed assets	38,000	38,000	455	37,545
Total expenditures	26,847,167	27,640,783	25,960,511	1,680,272
Sheriff's Detention				
Salaries and employee benefits	20,085,198	20,197,925	19,124,474	1,073,451
Services and supplies	3,210,923	3,210,178	2,983,288	226,890
Other charges	824,772	928,894	882,704	46,190
Expenditure transfer	26,890	86,890	134,502	(47,612)
Fixed assets	3,985	118,805	114,545	4,260
Total expenditures	24,151,768	24,542,692	23,239,513	1,303,179
Court Security				
Salaries and employee benefits	2,748,223	2,749,355	2,603,619	145,736
Services and supplies	10,487	10,487	3,813	6,674
Other charges	3,000	3,000	3,141	(141)
Expenditure transfer	83,352	71,352	67,238	4,114
Fixed assets				
Total expenditures	2,845,062	2,834,194	2,677,811	156,383
Grand Jury				
Salaries and employee benefits	50,142	50,142	47,999	2,143
Services and supplies	61,011	61,011	52,531	8,480
Other charges	5,767	5,767	5,801	(34)
Expenditure transfer			774	(774)
Fixed assets				
Total expenditures	116,920	116,920	107,105	9,815
Expenditures: Public Ways and Facilities				
Airport				
Salaries and employee benefits				
Services and supplies	159,208	159,208		159,208
Other charges				
Expenditure transfer				
Fixed assets				
Total expenditures	159,208	159,208		159,208

(Continued)

County of Stanislaus
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund (Continued)
Budget and Actual on Budgetary Basis
For the fiscal year ended June 30, 2003

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
Expenditures: Education				
Cooperative Extension				
Salaries and employee benefits	248,239	231,715	210,348	21,367
Services and supplies	34,665	34,665	23,092	11,573
Other charges	40,817	57,342	56,593	749
Expenditure transfer	47,998	47,998	44,249	3,749
Fixed assets				
Total expenditures	371,719	371,720	334,282	37,438
Expenditures: Health				
CEO Jail Medical				
Salaries and employee benefits				
Services and supplies	3,891,736	3,950,736	3,950,710	26
Other charges				
Expenditure transfer				
Fixed assets				
Total expenditures	3,891,736	3,950,736	3,950,710	26
Expenditures: Public Assistance				
Veteran's Services				
Salaries and employee benefits	244,691	249,539	248,712	827
Services and supplies	7,692	17,692	10,894	6,798
Other charges	29,912	40,912	40,080	832
Expenditure transfer	3,054	3,054	4,193	(1,139)
Fixed assets				
Total expenditures	285,349	311,197	303,879	7,318
Expenditures: Recreation				
Parks and Recreation				
Salaries and employee benefits	2,191,410	2,229,338	2,177,509	51,829
Services and supplies	927,752	1,012,752	958,809	53,943
Other charges	1,311,603	1,264,925	1,264,892	33
Expenditure transfer	372,528	442,528	393,463	49,065
Fixed assets	1,837,459	827,459	591,170	236,289
Total expenditures	6,640,752	5,777,002	5,385,843	391,159
Parks - Master Plan				
Salaries and employee benefits		17,880	17,880	
Services and supplies	103,510	790,293	421,635	368,658
Other charges		6,380		6,380
Expenditure transfer				
Fixed assets				
Total expenditures	103,510	814,553	439,515	375,038
Forced Cleanup				
Salaries and employee benefits				
Services and supplies	20,000			
Other charges				
Expenditure transfer				
Fixed assets				
Total expenditures	20,000	-	-	-
Tuolumne River Regional Park				
Salaries and employee benefits				
Services and supplies	226,026	226,026	226,026	
Other charges				
Expenditure transfer				
Fixed assets				
Total expenditures	226,026	226,026	226,026	-

(Continued)

County of Stanislaus
Statement of Revenues, Expenditures and Changes in Fund Balances
General Fund (Continued)
Budget and Actual on Budgetary Basis
For the fiscal year ended June 30, 2003

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
Expenditures: Debt Service				
Debt Service				
Salaries and employee benefits				
Services and supplies			500,000	(500,000)
Other charges				
Expenditure transfer	(393,563)	(393,563)	(393,559)	(4)
Fixed assets				
Total expenditures	(393,563)	(393,563)	106,441	(500,004)
Tax Revenue Anticipation Note				
Salaries and employee benefits				
Services and supplies		75,000	67,250	7,750
Other charges				
Expenditure transfer				
Fixed assets				
Total expenditures		75,000	67,250	7,750
Total Expenditures - General Fund	$ 154,148,072	$ 157,725,153	$ 139,033,981	$ 18,691,172
Excess of revenue over expenditures	20,578,853	19,643,407	51,216,275	31,572,868
Other financing sources (uses):				
Capital lease proceeds	51,026		51,026	
Transfers in	2,179,389	815,409	2,614,410	1,799,001
Transfers out	(40,331,574)	(46,956,585)	(50,942,182)	(3,985,597)
Sale of Fixed assets			1,989	1,989
Total other financing sources (uses)	(38,101,159)	(46,141,176)	(48,274,757)	(2,184,607)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(17,522,306)	(26,497,769)	2,941,518	29,439,287
Fund balances at beginning of year	(17,276,349)	(26,160,933)	56,513,179	78,358,596
Fund balances at end of year	$ (34,798,655)	$ (52,658,702)	$ 59,454,697	$ 107,797,883

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

County of Stanislaus
Statement of Revenues and Expenditures - Budget and Actual
Behavioral Health and Recovery - Special Revenue Fund
For the fiscal year ended June 30, 2003

	Budgeted Amount			Variance with Final Budget
	Original Budget	Final Budget	Actual Amount	Positive (Negative)
Revenues				
Fines, forfeitures, and penalties	$ 40,600	$ 55,636	$ 102,160	$ 46,524
Revenue from use of money and property	480,203	462,702	261,938	(200,764)
Intergovernmental revenue	24,566,672	33,762,832	33,898,156	135,324
Charges for services	19,891,711	20,232,332	21,008,983	776,651
Miscellaneous revenue	66,370	246,550	293,781	47,231
Total revenues	45,045,556	54,760,052	55,565,019	804,967
Expenditures				
Public Protection				
Salaries and employee benefits	877,893	845,893	712,869	133,024
Services and supplies	91,594	123,594	75,813	47,782
Other charges	116,756	116,756	123,991	(7,235)
Expenditure transfer	236,699	236,699	190,725	45,974
Total Public Protection	1,322,943	1,322,943	1,103,398	219,544
Health and Sanitation				
Salaries and employee benefits	27,301,504	26,374,085	24,821,345	1,552,740
Services and supplies	33,296,344	35,392,616	31,747,192	3,645,424
Other charges	4,669,540	4,438,891	4,468,259	(29,368)
Fixed assets	85,000	140,975	71,000	69,975
Expenditure transfer	(236,699)	(201,545)	(190,725)	(10,820)
Total Health and Sanitation	65,115,689	66,145,022	60,917,071	5,227,951
Total expenditures	66,438,632	67,467,965	62,020,469	5,447,495
Excess (deficiency) of revenues over (under) expenditures	(21,393,076)	(12,707,913)	(6,455,450)	6,252,462
Other financing sources (uses)				
Transfers in	17,283,372	7,262,247	8,258,289	996,042
Transfers out	(302,189)	(582,759)	(1,276,240)	(693,481)
Capital lease proceeds		16,975	16,975	
Total other financing sources (uses)	16,981,183	6,696,463	6,999,024	302,561
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	$ (4,411,893)	$ (6,011,450)	$ 543,574	$ 6,555,023

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

County of Stanislaus
Statement of Revenues and Expenditures - Budget and Actual
Community Services Agency - Special Revenue Fund
For the fiscal year ended June 30, 2003

	Budgeted Amounts: Original Budget	Budgeted Amounts: Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues				
Licenses, permits and franchises	$ 77,700	$ 77,700	$ 66,369	$ (11,331)
Revenue from use of money and property			1,622	1,622
Intergovernmental revenue	185,942,177	188,020,872	172,315,400	(15,705,472)
Charges for services	297,619	339,532	666,129	326,597
Miscellaneous revenue	1,538,551	1,563,551	976,325	(587,226)
Total revenues	187,856,047	190,001,655	174,025,844	(15,975,811)
Expenditures				
Public Assistance				
Salaries and employee benefits	48,844,366	47,065,917	42,653,952	4,411,965
Services and supplies	8,910,519	9,921,937	8,256,779	1,665,158
Other charges	140,286,580	143,099,169	131,913,351	11,185,818
Fixed assets	69,500	288,616	280,578	8,038
Total expenditures	198,110,965	200,375,639	183,104,660	17,270,979
Excess (deficiency) of revenues over (under) expenditures	(10,254,918)	(10,373,984)	(9,078,816)	1,295,169
Other financing sources (uses)				
Transfers in	7,448,247	7,787,489	8,438,800	651,311
Transfers out	(224,914)	(601,641)	(1,838,002)	(1,236,361)
Capital lease proceeds		170,116	170,116	
Total other financing sources (uses)	7,223,333	7,355,964	6,770,915	(585,050)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	$ (3,031,585)	$ (3,018,020)	$ (2,307,901)	$ 710,119

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

County of Stanislaus
Statement of Net Assets
Proprietary Funds
June 30, 2003

	Business-type Activities - Enterprise Funds: Fink Road Sanitary Landfill	Geer Road Sanitary Landfill	Health Clinic & Ancillary Services	Other Enterprise Funds	Total	Governmental Activities: Internal Service Funds
ASSETS:						
Current Assets:						
Pooled cash and investments	$ 5,613,465	$ 215,835	$	$ 2,775,318	$ 8,604,618	$ 18,872,639
Accounts receivable, net	702,860		7,466,441	3,602,920	11,772,221	429,150
Interest and other receivables	71,401	27,341		12,864	111,606	74,713
Inventory of supplies at cost			393,090	34,260	427,350	376,658
Deposit with others						663,730
Due from other funds			533,461	304,314	837,775	
Prepaid items			152,650		152,650	
Total current assets	6,387,726	243,176	8,545,642	6,729,676	21,906,220	20,416,890
Noncurrent assets:						
Restricted cash and investments	11,341,333	6,752,697	200,338		18,294,368	
Capital assets:						
Land	14,491,341				14,491,341	
Building and improvements	54,587		12,000,171	7,417,746	19,472,504	990,773
Equipment	643,578	14,239	11,606,736	733,760	12,998,313	21,787,912
Less:Accumulated depreciation	(649,985)	(3,026)	(19,472,946)	(2,075,165)	(22,201,122)	(17,602,630)
Total noncurrent assets	25,880,854	6,763,910	4,334,299	6,076,341	43,055,404	5,176,055
Total assets	$ 32,268,580	$ 7,007,086	$ 12,879,941	$ 12,806,017	$ 64,961,624	$ 25,592,945
LIABILITIES:						
Current liabilities:						
Accounts payable	$ 186,650	$ 65,453	$ 2,342,526	$ 600,671	$ 3,195,300	$ 1,490,478
Salaries and benefits payable	32,092		820,340	416,409	1,268,841	211,207
Interfund payable			20,489,032	1,746,464	22,235,496	2,522,522
Deposits from others	28,617				28,617	
Current portion of long-term obligation			134,464		134,464	
Current portion of capital lease			383,214	5,499	388,713	121,896
Compensated absences - current	2,773		65,899	12,249	80,921	626,392
Total current liabilities	250,132	65,453	24,235,475	2,781,292	27,332,352	4,972,495
Noncurrent liabilities						
Estimated cost of closure/postclosure	5,792,534	11,597,935			17,390,469	
Liability for compensated absences	127,678		1,150,639	426,871	1,705,188	
Advances from other funds			7,390,482		7,390,482	
Self insurance liability						21,277,469
Long term obligation			1,320,192		1,320,192	
Capital lease payable			635,636	5,911	641,547	167,545
Total noncurrent liabilities	5,920,212	11,597,935	10,496,949	432,782	28,447,878	21,445,014
Total liabilities	6,170,344	11,663,388	34,732,424	3,214,074	55,780,230	26,417,509
NET ASSETS:						
Invested in capital assets, net of related debt	14,539,521	11,213	1,660,455	6,064,931	22,276,120	4,886,614
Restricted	11,341,333	6,752,697	200,338	2,735,938	21,030,306	
Unrestricted	217,382	(11,420,212)	(23,713,276)	791,074	(34,125,032)	(5,711,178)
Total net assets	$ 26,098,236	$ (4,656,302)	$ (21,852,483)	$ 9,591,943	$ 9,181,394	$ (824,564)
Adjustment to reflect the consolidation of internal service fund activites related to enterprise funds					1,992,437	
Net assets of business type activites					11,173,831	

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

County of Stanislaus
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the fiscal year ended June 30, 2003

	Business-type Activities - Enterprise Funds					Governmental Activities
	Fink Road Sanitary Landfill	Geer Road Sanitary Landfill	Health Clinic & Ancillary Services	Other Enterprise Funds	Total	Internal Service Funds
Operating revenues:						
Charges for services	$ 4,793,868	$	$ 36,320,341	$ 16,179,759	$ 57,293,968	$ 50,941,210
Miscellaneous Revenue			1,256,642		1,256,642	
Total operating revenues	4,793,868		37,576,983	16,179,759	58,550,610	50,941,210
Operating expenses:						
Salaries and benefits	938,477		18,890,423	9,960,398	29,789,298	5,893,885
Services and supplies	5,303,216	692,272	16,748,564	7,078,261	29,822,313	47,284,957
Depreciation	43,486	712	771,700	268,492	1,084,390	1,334,083
Estimated cost of closure/postclosure	680,936				680,936	
Total operating expenses	6,966,115	692,984	36,410,687	17,307,151	61,376,937	54,512,925
Operating income (loss)	(2,172,247)	(692,984)	1,166,296	(1,127,392)	(2,826,327)	(3,571,715)
Nonoperating revenues (expenses)						
Investment earnings	2,180,896	186,239		133,665	2,500,800	486,492
Interest expense			(674,300)	(13,018)	(687,318)	(27,452)
Loss on sale of fixed assets						84,913
Operating grants			280,187	2,126,228	2,406,415	
Total nonoperating revenues (expenses)	2,180,896	186,239	(394,113)	2,246,875	4,219,897	543,953
Income (loss) before contributions and transfers	8,649	(506,745)	772,183	1,119,483	1,393,570	(3,027,762)
Transfers in	625,000	450,000	1,295,321	349,270	2,719,591	179,444
Transfers out	(1,100,078)		(5,783,617)	(1,177,863)	(8,061,558)	(832,934)
Capital contributions						97,277
Changes in net assets	(466,429)	(56,745)	(3,716,113)	290,890	(3,948,397)	(3,583,975)
Total net assets - beginning	26,564,665	(4,599,557)	(18,136,370)	9,301,053		2,759,411
Total net assets - ending	$ 26,098,236	$ (4,656,302)	$ (21,852,483)	$ 9,591,943		$ (824,564)
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds					(165,749)	
Change in net assets of business type activities					(4,114,146)	

The notes to the financial statements are an integral part of this statement.

County of Stanislaus
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Business-type Activities - Enterprise Funds					Governmental Activities
	Fink Road Landfill	Geer Road Landfill	Health Clinic & Ancillary Services	Other Enterprise Funds	Total	Internal Service Funds
Cash flows from operating activities						
Cash received from customers and users	$ 5,178,571	$ 12,017	$ 39,450,989	$ 16,030,507	$ 60,672,144	$ 51,431,202
Cash received from interfund services			503,955	(304,314)	199,641	467,242
Cash paid to suppliers	(5,198,068)	(656,721)	(16,539,547)	(7,160,139)	(29,554,475)	(44,082,503)
Cash paid for interfund services			997,582	60,212	1,057,794	(107,000)
Cash paid to employees	(916,682)		(18,705,607)	(9,749,920)	(29,372,209)	(5,969,027)
Net cash provided (used) by operating activities	(936,179)	(644,704)	5,707,372	(1,123,594)	3,002,895	1,709,914
Cash flows from noncapital financing activities						
Transfers in	625,000	450,000	1,295,321	349,270	2,719,591	179,444
Subsidy from state & federal grant			280,187	2,126,228	2,406,415	
Transfers out	(1,100,078)		(5,783,617)	(1,177,863)	(8,061,558)	(832,934)
Net cash provided (used) by noncapital financing activities	(475,078)	450,000	(4,208,109)	1,297,635	(2,935,552)	(653,490)
Cash flows from capital and related financing activities						
Capital contributions						3,951
Sale of fixed assets						84,913
Purchase of fixed assets	4,490		(436,296)	(18,581)	(450,387)	(985,980)
Principal payment - capital leases			(336,342)	(5,115)	(341,457)	(156,147)
Principal payment - long term debt			(126,824)		(126,824)	
Interest paid			(674,300)	(13,018)	(687,318)	(27,452)
Net cash provided (used) by capital and related financing activities	4,490		(1,573,762)	(36,714)	(1,605,986)	(1,080,715)
Cash flows from investing activities						
Interest received	2,180,896	186,239		133,665	2,500,800	486,492
Net cash provided by investing activities	2,180,896	186,239		133,665	2,500,800	486,492
Net increase (decrease) in cash and cash equivalents	774,122	(8,465)	(74,499)	270,992	962,157	462,201
Cash and equivalents, July 1, 2002	16,180,669	6,976,997	274,837	2,504,326	25,936,829	18,410,438
Cash and equivalents, June 30, 2003	$ 16,954,798	$ 6,968,532	$ 200,338	$ 2,775,318	$ 26,898,986	$ 18,872,639
Reconciliation of cash and cash equivalents to the Statement of Net Assets						
Pooled cash and investments per Statement of Net Assets	$ 5,613,465	$ 215,835		$ 2,775,318	$ 8,604,618	$ 18,872,639
Restricted cash and investments per Statement of Net Assets	11,341,333	6,752,697	200,338		18,294,368	
Total cash and cash equivalents per Statement of Net Assets	$ 16,954,798	$ 6,968,532	$ 200,338	$ 2,775,318	$ 26,898,986	$ 18,872,639

The notes to the financial statements are an integral part of this statement.

County of Stanislaus
Statement of Cash Flows (Continued)
Reconciliation of Operating Income to Net Cash Provided by Operating Activities
Proprietary Funds
For the Fiscal Year Ended June 30, 2003

	Business-type Activities - Enterprise Funds					Governmental Activities
	Fink Road Landfill	Geer Road Landfill	Health Clinic & Ancillary Services	Other Enterprise Funds	Total	Internal Service Funds
Operating income (loss)	$ (2,172,247)	$ (692,584)	$ 1,166,296	$ (1,127,392)	(2,826,327)	$ (3,571,715)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation	43,486	712	771,700	268,492	1,084,390	1,334,683
(Increase) decrease in accounts receivable	356,109		1,874,006	(1,308,330)	921,785	458,403
Decrease in interest and other receivables	28,594	12,017		1,159,138	1,199,749	31,519
(Increase) decrease in inventory			30,184	3,714	33,898	(21,177)
Decrease in prepaids			53,901		53,901	
(Increase) decrease in due from other funds			503,955	(304,314)	199,641	17,608
Increase (decrease) in accounts payable and accrued liabilities	103,148	35,551	74,992	(85,592)	128,099	104,205
Increase in interfund payable			997,582	1,746,464	2,744,046	252,624
Increase in salaries and benefits payable	6,409		104,444	76,110	186,963	3,226
Increase (decrease) in liability for compensated absences	15,386		80,372	134,368	230,126	(18,368)
(Decrease) in due to other funds/governments				(1,646,252)	(1,646,252)	
Increase in deposits from others	2,000				2,000	
Increase in estimated cost of closure/postclosure	610,936				610,936	
Increase in self insurance liability						3,119,418
Net cash provided (used) by operating activities	$ (936,179)	$ (644,304)	$ 5,707,372	$ (1,123,594)	$ 3,002,895	$ 1,709,914

The notes to the financial statements are an integral part of this statement.

County of Stanislaus
Statement of Fiduciary Net Assets
Fiduciary Funds
June, 30.2003

	Employees' Retirement Trust	Investment Trust	Agency Funds	Woodward Intake Project Private-Purpose Trust Fund	Total
ASSETS					
Pooled cash and investments	$ 4,989,901	$ 367,760,309	$ 66,471,396	$ 1,000,000	$ 440,221,606
Accounts receivable (net of allowance for uncollectables)		676,354	3,390,158		4,066,512
Cash with fiscal agent	28,045,566				28,045,566
Interest and other receivable	6,951,550	1,693,582	236,221		8,881,353
Advances to other funds			812,018		812,018
Property, plant and equipment net of accumulated depreciation			728,002		728,002
Other investments	927,730,039				927,730,039
Total assets	967,717,056	370,130,245	71,637,795	1,000,000	1,410,485,096
LIABILITIES					
Accounts payable	8,738,684	1,226,802	6,683,133		16,648,619
Salaries and benefits payable		8,965	25,079		34,044
Trust obligations			64,117,565		64,117,565
Agency funds for other government unit		1,114,707			1,114,707
Advances from other funds			812,018		812,018
Total liabilites	8,738,684	2,350,474	71,637,795		82,726,953
NET ASSETS					
Net assets held in trust for investment pool participants/pension benefits	$ 958,978,372	$ 367,779,771	$	$ 1,000,000	$ 1,327,758,143

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

County of Stanislaus
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June, 30.2003

	Employees' Retirement Trust	Investment Trust	Woodward Intake Project Private-Purpose Trust Fund	Total
Additions:				
Contributions:				
Employer contributions	$ 16,207,877	$	$	$ 16,207,877
Member contributions	18,520,605			18,520,605
Contributions on pooled investments		2,520,254,528		2,520,254,528
Total contributions	34,728,482	2,520,254,528		2,554,983,010
Investment income:				
Net appreciation in fair value	16,953,722			16,953,722
Interest	23,326,484	9,320,820		32,647,304
Dividends	6,335,126			6,335,126
Miscellaneous income	709,360		1,000,000	1,709,360
Less investment expense	(2,623,591)			(2,623,591)
Net investment income	44,701,101	9,320,820	1,000,000	55,021,921
Total additions	79,429,583	2,529,575,348	1,000,000	2,610,004,931
Deductions:				
Benefit payments	43,435,482			43,435,482
Refunds of prior contributions	1,561,286			1,561,286
Distributions from pooled investments		2,489,384,763		2,489,384,763
Administrative expense	1,147,117			1,147,117
Total deductions	46,143,885	2,489,384,763		2,535,528,648
Change in net assets	33,285,698	40,190,585	1,000,000	74,476,283
Net assets held in trust - beginning	925,692,674	327,589,186		1,253,281,860
Net assets held in trust - ending	$ 958,978,372	$ 367,779,771	$ 1,000,000	$ 1,327,758,143

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

COUNTY OF STANISLAUS

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

Note 1: Summary of Significant Accounting Policies

This summary of significant accounting policies of the County of Stanislaus (the County) is presented to assist in understanding the County's financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

A. Reporting Entity

The accounting methods and procedures adopted by the County conform to generally accepted accounting principles as applied to governmental entities. These financial statements present the government and its component units, legally separate entities for which the government is considered to be financially accountable under the criteria set by Governmental Accounting Standards Board (GASB) Statement No. 39.

Reporting for component units on the County's financial statements can be blended or discretely presented. Blended component units, although legally separate entities, are in substance, part of the government's operations. Blended component units are an extension of the County and so data from these units are combined with the data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the combined financial statements. Each component unit has a June 30th year end.

Blended Component Units

1. Redevelopment Agency of the County of Stanislaus ("Agency"): The Agency was established by the County as a separate legal entity in accordance with state law. It is governed by the five members of the County Board of Supervisors. The purpose of the Agency is to acquire, rehabilitate, and revitalize property within legally designated redevelopment areas. The Agency provides service solely to the County and is reported as a capital project fund.

2. Stanislaus County Capital Improvements Financing Authority ("Authority"): The Authority was established on September 1, 1989, as a separate legal entity whose sole purpose is to provide financing for various County capital projects. It is governed by the five members of the County Board of Supervisors. The activity for the Authority is reflected in the debt service funds.

3. Lighting Districts: The County has 30 different, legally separate lighting districts whose boards are the same as the County Board of Supervisors. The County's approval is needed to set the districts' budget and to set assessment rates. The activity for the lighting districts is reported in the special revenue funds.

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

A. **Reporting Entity** (continued)

Discretely Presented Component Unit

Consolidated Emergency Dispatch Agency

The Modesto/Stanislaus Consolidated Emergency Dispatch Agency (the "Agency") was created on September 1, 1999, pursuant to a joint exercise of powers agreement between the City of Modesto (the "City") and the County of Stanislaus (the "County"). The Agency is administered by a seven-member commission consisting of one member of the Modesto City Council, one member of the County's Board of Supervisors, the County Chief Executive Officer, the Modesto City Manager, two members from the Dispatch Advisory Board, and one member from the City of Ceres' City Council. The purpose of the Agency is to consolidate the public safety communications system. The responsibilities of the County and the City include approval: of the annual budget, claims, liabilities, and the use of Agency property as collateral. Each participant will contribute sufficient funds to pay for all costs and expenses associated with providing Emergency Dispatch Services. Upon termination of the agreement, assets will be distributed equally to the City and County, unless otherwise approved. The financial statements may be obtained by writing to the Modesto/Stanislaus Consolidated Emergency Dispatch, Office Manager, 3705 Oakdale Road, Modesto, California, 95357.

B. **Implementation of Governmental Accounting Standards Board Statements**

GASB Statement No. 39

The County has elected to early implement Government Accounting Standards Board (GASB) Statements No. 39, *Determining Whether Certain Organizations are Component Units: an amendment of GASB statement No. 14.*

C. **Basis of Presentation**

Government-Wide Financial Statements

The statement of net assets and statement of activities display information about the primary government (the County) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. The government-wide statements distinguish between the *governmental* and *business-type activities* of the County and between the County and its discretely presented component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees charged to external parties.

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

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

Government-Wide Financial Statements (continued)

In the Government-wide statements, eliminations have been made to minimize the double counting of certain internal activities. In the statement of net assets, all internal balances have been eliminated except those representing the net balance due between governmental and business type activities. This residual balance is reported as "internal balances." In the statement of activities, direct expenses such as services provided and used are not eliminated, but Internal Service Fund activity has been eliminated.

The statement of activities demonstrates the degree to which the program expenses of a given function are offset by program revenues. Program expenses include direct expenses, which are clearly identifiable with a specific function, and allocated indirect expenses. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

Fund Financial Statements

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

Proprietary fund *operating* revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. *Nonoperating* revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The County reports the following major governmental funds:

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

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

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

Fund Financial Statements (continued)

- The *Community Services Agency Fund* was established for the administration of the three major public social program areas including financial assistance, social services, and employment services. Intergovernmental revenue is the primary source of financing for this fund.

- *Public Facility Fees* were established by the Board of Supervisors adoption of Resolution No. 89-1724 for the purpose of reducing the impact of a growing community on existing County resources. The fees are charged to new development based on the need for facilities to maintain the existing level of service. The fee benefits the following departments and programs: roads, detention, criminal justice, library, parks, public and mental health, emergency services, animal services and sheriff.

- The *Tobacco Settlement Fund* was established to account for the proceeds from securitizing the County's share of tobacco settlement revenues. Currently the proceeds are restricted to use for capital expenditures. The intent is to preserve the initial amount and to distribute 80% of the annual investment earnings to the General Fund.

The County reports the following major enterprise funds:

- The *Fink Road Sanitary Landfill Fund* was established to account for the operation of Fink Road Sanitary Landfill, which provides a dumping site for the disposal of solid wastes. Revenues are derived from fees generated for the disposal of waste at the site.

- The *Geer Road Sanitary Landfill Fund* was established to account for the operation of Geer Road Sanitary Landfill, which provided a dumping site for the disposal of solid waste. The landfill is owned jointly with the City of Modesto.

- The *Health Clinics and Ancillary Services Fund* was established to account for health care operations in outpatient clinics throughout the County. Revenues are derived from fees for patient services, payments from federal and state programs such as Medicare and Medi-Cal, private insurance, and subsidies from the County.

The County reports the following additional fund types:

- *Internal Service Funds* account for the County's fleet maintenance, communication, technology, and other services provided to other departments or other governments, and self-insurance programs – worker's compensation, long-

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

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

Fund Financial Statements (continued)

term disability, employee benefits, and personal injury and property damage on a cost-reimbursement basis.

- The *Pension Trust Fund* accumulates contributions from the County, its employees and other participating employers, and earnings from the fund's investments. Disbursements are made from the fund for retirement, disability and death benefits (based on a defined benefit formula) and administrative expenses. This fund includes all assets of the StanCERA.

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

- The *Woodward Intake Project Private-Purpose Trust Fund* accounts for the County's share of an agreement with South San Joaquin Irrigation district for the construction of an intake pipe at the reservoir so it may continue to be used as a county park.

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

D. **Basis of Accounting**

The government-wide, proprietary, pension and investment trust fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

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

Note 1: Summary of Significant Accounting Policies (continued)

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

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available ("susceptible to accrual"). The County considers revenues available if they are collected within 180 days after year-end, except for property taxes. Property taxes are considered available if they are collected within 60 days after year-end. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due. General capital assets acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and capital leases are reported as other financial sources.

For its business-type activities and enterprise funds, the County has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board, the Accounting Principles Board or any Accounting Research Bulletins issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

E. **Non-Current Governmental Assets/Liabilities**

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide statement of net assets.

F. **Budgetary Basis of Accounting**

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

An operating budget is adopted each fiscal year for the General Fund and all Special Revenue Funds except the Tobacco Settlement Fund. An operating

Note 1: Summary of Significant Accounting Policies (continued)

F. **Budgetary Basis of Accounting** (continued)

balanced budget is adopted for the capital project funds for the life of the project, except for the Redevelopment Agency, which adopts an operating budget each fiscal year. Expenditures are controlled at the object level within budget units for the County. A budget unit may be (1) a single department, (2) a division of a large department having multiple divisions, or (3) an entire fund. The object level within a budget unit is the level at which expenditures may not legally exceed appropriations. Any transfers of appropriations between object levels within the same budget unit may be authorized by the County Executive Office. Budget amendments or supplementary appropriations normally financed by unanticipated revenues during the year or transfers of appropriations between budget units must be approved by the Board of Supervisors. Budgeted amounts in the budgetary financial statements are reported as originally adopted and as amended during the fiscal year by resolutions approved by the Board of Supervisors.

The budgets for the governmental funds may include an object level known as "expenditure transfers". This object level is an accounting mechanism used by the County to show reimbursements between operations within the same fund (an example would be the General Fund).

The amounts reported in the budgetary basis differ from the basis used to present the basic financial statements in accordance with generally accepted accounting principles (GAAP). Annual budgets are prepared on the modified accrual basis of accounting except that current year encumbrances are budgeted as expenditures.

The following schedule reconciles the amounts on the Statements of Revenues and Expenditures – Budget to Actual to the amounts on the Statement of Revenue, Expenditures and Changes in Fund Balances:

		Special Revenue Funds	
	General Fund	Behavioral Health	Community Services Agency
Total expenditures (budgetary basis)	$ 139,033,981	$ 62,020,469	$ 183,104,660
Basis difference - net deduction of 2001/02 encumbrance plus 2002/03 encumbrances	(1,164,010)	1,428,053	5,002
Total Expenditures (GAAP)	$ 137,869,971	$ 63,448,522	$ 183,109,662

Note 1: Summary of Significant Accounting Policies (continued)

G. **Cash and Cash Equivalents**

Cash and cash equivalents include cash in bank and investments held by the County Treasurer in a cash management pool. The amounts classified as "Cash with Fiscal Agent" represent loan proceeds held by the trustees for various borrowings (See Note 12). "Cash with Fiscal Agent" is considered cash and cash equivalents for the purposes of reporting cash flows.

For purposes of the accompanying statement of cash flows, the enterprise and internal service funds consider all highly liquid investments with a maturity of three months or less when purchased, and their equity in the County Treasurer's investment pool, to be cash equivalents.

H. **Investments**

California Government Code Section 53600, et seq., authorizes the County to invest in obligations of the State or any local agency of the State of California, bankers' acceptances, commercial paper, negotiable certificates of deposits, repurchase agreements or reverse repurchase agreements, medium-term notes issued by corporations, State of California Local Agency Investment Fund, and open-ended mutual funds. All investments are carried at fair value until they are within 90 days of maturity at which time they are reported at amortized cost. Interest earned on pooled investments is apportioned quarterly to certain participating funds based upon each fund's average daily deposit balance with all remaining interest deposited in the General Fund.

The Pension Trust (Stanislaus County Employees' Retirement Association) funds are invested pursuant to policy guidelines established by the Retirement System's Board. The objective of the investment policy is to invest in a manner that provides the safeguards and diversity that a prudent investor would adhere to. The policy of Stanislaus County Employee's Retirement Association is to invest in the following asset classes: Large Cap US Stocks, Small Cap US Stocks, Non US Stocks and Fixed Income.

I. **Deferred Revenue**

The County reports deferred revenue on its financial statements. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the County receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the County has a legal claim to the resources, the liability of deferred revenue is removed from the financial statements and revenue is recognized.

Note 1: Summary of Significant Accounting Policies (continued)

J. **Other Assets**

Inventory: In governmental funds, inventories are valued at cost. In proprietary funds, they are valued at lower of cost or market. Cost is determined by using either the weighted average or the first-in, first-out method. The consumption method of accounting for inventory is used for the governmental fund types and the proprietary fund types. For the governmental fund types, the reserve for inventory indicates that a portion of the fund balance is not an available financial resource (see Note 14).

Prepaid Items: Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

K. **Capital Assets**

Capital assets (including infrastructure) are recorded at historical cost or estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value on the date contributed. Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, bridges, lighting system, drainage systems, and flood control. The County defines capital assets as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year.

Capital assets used in operations are depreciated or amortized (assets under capital leases) using the straight-line method over the lesser of the capital lease period or their estimated useful lives in the government-wide statements, and the proprietary funds.

The estimated useful lives are as follows:

Infrastructure (except for the maintained pavement subsystem)	20 to 60 years
Structures and improvements	15 to 60 years
Equipment	3 to 20 years

The County has seven networks of infrastructure assets – roads, bridges, lighting districts, storm drains, signs, signals and beacons.

Landfills, in the Enterprise Funds, are amortized over the estimated number of years that space will be available.

Note 1: Summary of Significant Accounting Policies (continued)

L. **Compensated Absences (Accrued Vacation, Sick Leave, and Compensatory Time)**

All regular employees of the County earn vacation and sick leave with pay every year. The amount of vacation and sick hours earned is based on the years of continuous service and the bargaining unit to which the employee belongs. All employee bargaining units have vacation accumulation limits. Also, regular employees are given credit for 8 hours sick leave each month of employment with limited accumulation.

After at least six months of County service, most regular employees upon separation are entitled to all unused vacation time accumulation. Most regular employees are entitled to a portion of accumulated sick leave after six years of service, depending on age, years of service, and bargaining unit.

At the close of each fiscal year, the balance of this accumulated time at the last pay period is computed for each employee at the current salary range. In the financial statements, these amounts are referred to as "Compensated Absences." An average of all termination payments since July 1986 is used to compute the amount that is expected to be liquidated in the next year with expendable available financial resources. This current portion and the balance of the long-term liability are reported in the government-wide financial statements and are generally liquidated by the general fund.

M. **Interfund Transactions**

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either "interfund receivable/payable" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services or supplies provided can result, at year-end, in receivables and payables referred to as "due to/from other funds". These receivables and payables are eliminated in the governmental-wide consolidation with residual balances reported as "internal balances" when they are between funds of the County.

Note 1: Summary of Significant Accounting Policies (continued)

M. **Interfund Transactions** (continued)

Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide presentation

N. **Estimates**

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

Note 2: Restatement of Net Assets

The beginning net assets of the Governmental Activities on the Government-wide Statement of Activities has been restated to reflect phasing in the rest of the County's infrastructure not included in the June 30, 2002 Comprehensive Annual Financial Report.

The beginning net assets of the Business-type Activities has been restated to reflect a fund change. The Waste to Energy fund reported as a major fund last year has been determined this year to be an Agency fund instead of a County enterprise fund. All the proprietary fund statements have been changed to reflect the removal of this fund.

Restatement of Equity

	Governmental Activities	Business-type Activities
Net assets June 30, 2002, as previously reported	$ 627,280,066	$ 51,214,122
Infrastructure phase-in for storm drains and signs	16,580,643	
Removal of Waste to Energy Fund		(35,926,145)
Net assets July 1, 2002 as restated	$ 643,860,709	$ 15,287,977

Note 3: Individual Fund Deficits

Deficit Fund Balances – Government Fund Type

Special Revenue Fund - Job Training Partnership Act	$ 106,761

The Job Training Partnership Act deficit is due to a timing difference between expenditures and State reimbursement.

Note 3: **Individual Fund Deficits** (continued)

Accumulated Deficits – Proprietary Funds

Enterprise fund - Geer Road Landfill	$ 4,656,302
Enterprise fund -Health Clinics/Ancillary fund	21,852,483
Internal Service fund - Workers' Compensation Insurance	9,681,038
Internal Service fund - Dental Insurance	241,696
Internal Service fund - Technology and Communication	2,221,640

The deficit in the Geer Road Landfill is due to the liability for closure/post closure maintenance. This accumulated deficit will be funded with receipts from Fink Road Landfill. The Health Clinics and Ancillary Services Fund deficit is due to the closure of the County hospital inpatient facilities in November 1997. The plan to recover this deficit focuses on transfers from other funds, one-time revenue sources, increased fees for service and dedicated revenue streams.

The Internal Service Fund deficits are due to unexpected expenses in combination with user rates that were too low. These deficits will be funded by increased user charges.

Note 4: **Excess of Actual Expenditures Over Budget in Individual Budget Units**

The following budgetary units had an excess of actual expenditures over budget for the year ended June 30, 2003:

Excess Expenditures	
General Fund:	
Collections	$ 7,148
Facility Maintenance	53,604
Debt Service	500,004
Special Revenue:	
Household Hazardous Waste	$ 20,821
Vehicle Registration	2,331
Source Reduction and Recycling	166,059
Workers' Compensation Fraud	5,932
Rural Crime Task Force	5,745
County Fire Service	24,834

The above disclosure is based on departmental appropriations as of June 30, 2003. If a department received unanticipated revenue during the fiscal year and did not increase estimated revenue and appropriations, then the positive effect on the departmental budget would not be reflected in the above.

Note 5: **Cash and Investments**

The County maintains a cash and investment pool for the purpose of increasing interest income through pooled investment activities. This pool, which is available for use by all funds, is displayed on the combined balance sheet as "Pooled Cash and Investments." The

Note 5: **Cash and Investments** (continued)

Pension Trust Fund participates in the pool, but the majority of its cash and investments are not included in the County's pooled cash and investments.

Cash and investments with the County Treasurer are invested pursuant to investment policy guidelines established by the County Treasurer and accepted by the Board of Supervisors. The objectives of the policy are, in order of priority, legality of investment, safety of principal, liquidity and yield.

Total County cash and investments are as follows:

Cash:	
Imprest cash	$ 227,847
Cash on hand	17,933
Bank deposits:	
in Treasurer's pool	30,672,477
with others external to the pool	6,823,707
Investments in Treasurer's pool	631,617,869
Less: outstanding checks	(62,281,485)
Subtotal	607,078,348
Restricted cash and investments with fiscal agent	14,247,426
Total Cash and Investments	$ 621,325,774

Total County cash and investments are reported as follows:	
Primary government	$ 180,648,929
Component unit	455,239
Pension trust	4,989,901
Investment trust fund	367,760,309
Private-purpose trust fund	1,000,000
Agency funds	66,471,396
Total Cash and Investments	$ 621,325,774

Deposits

Deposits are placed with various financial institutions and are carried at cost. The difference between carrying amount of the County's deposits and the bank balance is a result of transactions in transit.

The County's deposits are categorized to give an indication of the level of custodial risk assumed by the County at year-end. Category 1 includes deposits that are insured or collateralized with securities held by the County or by its agents in the County's name. Category 2 includes deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the County's name. Collateralized deposits represent amounts covered by collateral held by the pledging financial institutions; under California laws, depository banks maintain a collateral pool for all public funds deposited. Category 3 includes deposits that are uncollateralized. This category includes any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the County's name.

Note 5: **Cash and Investments** (continued)

At June 30, 2003, deposits included the following:

	Category 1	Category 2	Category 3	Bank Balance	Carrying Amount
Deposits with financial institutions-pool	$ 100,000	$ --	$30,572,477	$ 24,206,191	$ 30,672,477
Deposits with financial institutions-other	1,028,851	--	5,794,856	6,823,707	6,823,707
	$ 1,128,851	$ --	$36,367,333	$ 31,029,898	$ 37,496,184
Cash on hand					17,933
Imprest cash					227,847
Total deposits and cash on hand					$ 37,741,964

Under the California Government Code, a financial institution is required to secure deposits in excess of $100,000 made by state or local governmental units by pledging securities held in the form of an undivided collateral pool. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of these deposits. The collateral must be held at the pledging bank's trust department or other bank, acting as the pledging bank's agent, in the County's name.

Investments

The County's investments are categorized to give an indication of the level of custodial risk assumed by the County at year end. Category 1 includes investments that are insured or registered, or securities held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the counterparty's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with securities held by the counterparty, or by the counterparty's safekeeping department or agent, but not in the County's name. The County did not have any category 2 or 3 investments at June 30, 2003.

At June 30, 2003, investments included the following:

	Maturity Dates	Stated Interest Rates	Category 1	Fair Value & Carrying Amount	Par Value
Pooled Investments in County Treasury:					
Bankers Acceptances	9/8/03	1.15 %	$ 4,990,150	$ 4,990,150	$ 5,000,000
US Treasury Notes	7/10/03-8/15/03	1.14-5.75	138,146,250	138,146,250	137,000,000
Federal Agencies	8/15/03-5/21/03	.93-7.25	138,825,832	138,825,832	136,225,000
Repurchase Agreements	7/2/03	1.1	81,885,175	81,885,175	81,885,175
Commercial Paper	7/7/03-7/30/03	1.02-1.24	59,971,399	59,971,399	60,000,000
Negotiable Certificates of Deposit	7/10/03-8/6/03	1.15-1.79	29,942,200	29,942,200	30,000,000
Medium-Term Notes	7/21/03-2/15/06	2.99-6.63	59,411,059	59,411,059	57,220,000
			513,172,065	513,172,065	507,330,175
Pension Trust:					
Pension Common Stocks			610,069,808	610,069,808	556,686,292
Pension Bonds			317,660,231	317,660,231	294,893,576
Category Totals			$1,440,902,104		
Pooled Investments Not Subject to Categorization					
Local Certificates of Deposit				$ 28,300,000	$ 28,300,000
Local Agency Investment Fund				30,000,000	30,000,000
Managed Money Market Pools				60,145,804	60,145,804
Total Investments				$1,559,347,908	$ 1,477,355,847

Note 5: **Cash and Investments** (continued)

Investments (continued)

In accordance with GASB No. 31, investments are reported at their fair value and all changes in fair value are reflected in income of the period in which they occur.

Except for repurchase agreements, the County did not invest in any types of investments during this fiscal year, other than those owned as of June 30, 2003.

Fair values were obtained from our custodial statement for all investments having greater than 90 days to maturity in the following categories:

Bankers Acceptances
U.S. Agency and GSE Bonds and Notes
U.S. Treasury Bonds, Notes and Bills
Corporate Bonds and Notes

Amortized cost was used for all investment having 90 days or less to maturity, which may include the following categories:

Commercial Paper
Bankers Acceptances
State of California Local Agency Investment Fund
U.S. Agency and GSE Bonds and Notes
U.S. Treasury Bonds, Notes and Bills
Repurchase Agreements
Corporate Bonds and Notes

Book cost was used for collateralized Certificates of Deposit purchased from state and nationally chartered banks.

The Stanislaus County Treasurer's Pool is not SEC-registered, but is invested in accordance with California State Government Code, and the Stanislaus County Treasurer's Investment Policy. California State Government Code requires the formation of an Investment Oversight Committee, which is charged with overseeing activity in the pool for compliance to policy and code requirements. To this end, the Oversight Committee reviews the monthly investment report prior to presentation to the Board of Supervisors and causes an audit of investments to occur annually.

The Stanislaus County Treasurer's Pool maintains some investment in the State of California Local Agency Investment Fund (L.A.I.F.). This fund is not SEC-registered, but is required to invest according to California State Code. The total amount invested by all public agencies in LAIF is $5.7 billion. Of this amount, 98% was invested in nonderivative instruments with 2% invested in derivative financial products. The Local Investment Advisory Board (Board) has oversight responsibility for LAIF. The Board consists of five members as designated by state statute. The value of the pool shares in

Note 5: **Cash and Investments** (continued)

Investments (continued)

LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different than the fair value of the pooled treasury's portion in the pool.

In addition, funds were invested in three separate money market funds.

In accordance with GASB 31, investments are marked to fair values annually and an adjustment is made to each fund accordingly. However, actual daily activity is done on a dollar to dollar basis and only a withdrawal from the pool of a size that jeopardizes pool participants would cause the withdrawal to be done at market value.

Withdrawals from L.A.I.F. are done on a dollar to dollar basis.

The County has no legally binding guarantees to support the shares in the County Treasurer's Pool.

The Stanislaus County Treasurer's Pool generally limits participation in the pool to those agencies and districts required to participate by legal provisions of the California State Code. Voluntary participation is limited to the Stanislaus County Employees Retirement System and Independent Special Districts, which represent approximately 3% of the pool.

L.A.I.F. is an outside pool utilized by the Stanislaus County Treasurer's Investment Pool. While fair value for the pool shares were made available by L.A.I.F., GASB 31 requires that short-term investments be carried at amortized cost. Therefore, this information was not applicable.

In accordance with Government Code Section 53647, interest on all money deposited in the County Treasury belongs to the County unless otherwise directed by law or the County Board of Supervisors. The County has numerous funds in which the interest earned is deposited into the General fund to comply with the above code section.

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool at June 30, 2003:

Statement of Net Assets

Net assets held for pool participants	$ 607,078,348
Equity of external pool participants	$ 440,676,845
Equity of internal pool participants	166,401,503
Total Equity	$ 607,078,348

Statement of Changes in Net Assets

Net assets at July 1, 2002	$ 576,900,515
Net investment income	16,429,507
Net contributions and withdrawals	13,748,326
Net Assets at June 30, 2003	$ 607,078,348

Note 6: **Interfund Transactions**

Interfund Receivables/Payables

The composition of interfund balances as of June 30, 2003 are as follows:

Due To/From Other Funds

Receivable Fund	Payable Fund	Amount
Behavioral Health and Recovery	General Fund	$ 147,624
Community Services Agency	General Fund	24,996
Other Governmental Funds	General Fund	189,172
Health Clinics and Ancillary Services	General Fund	7,882
Other Governmental Funds	Other Governmental Funds	10,895
Behavioral Health and Recovery	Other Governmental Funds	192,481
Health Clinics and Ancillary Services	Other Governmental Funds	525,580
Other Enterprise Funds	Behavioral Health and Recovery	304,314
Totals		$ 1,402,944

The General Fund owes the other funds for State realignment. The Other Government Funds owe Health Clinics and Ancillary Services and the other funds for services provided. Behavioral Health and Recovery fund owes the Other Enterprise Funds for services provided.

Advances To/From

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	$ 501,350
Behavioral Health and Recovery	Behavioral Health and Recovery	2,640,000
Other Governmental Funds	Health Clinics and Ancillary Services	7,390,482
Totals		$ 10,531,832

The above interfund advances are long-term loans that are not expected to be repaid in the short-term.

Interfund Receivables/Payables

Receivable Fund	Payable Fund	Amount
General Fund	Other Governmental Funds	$ 5,509,655
	Health Clinics and Ancillary Services	20,489,032
	Other Enterprise Funds	1,746,464
	Internal Service Funds	2,522,521
Totals		$ 30,267,672

During the year, certain funds borrowed $30,267,672 from the General Fund to cover their deficit cash balances.

COUNTY OF STANISLAUS

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

Note 6: **Interfund Transactions** (continued)

Transfers

Transfer from	Transfer to	Amount	Purpose
General Fund	Community Services Agency	$ 7,716,589	County program contributions
	Behavioral Health and Recovery	6,803,740	County program contributions
	Other Governmental Funds	35,164,834	County program contributions and debt service
	Health Clinics and Ancillary Services	1,138,970	County program contribution
	Internal Service Funds	118,050	County program contribution
		50,942,183	
Behavioral Health and Recovery	Community Services Agency	182,062	Contributions to joint programs
	Other Governmental Funds	744,908	To pay POB debt service
	Other Enterprise Funds	349,270	Reimburse administrative costs of program
		1,276,240	
Community Services Agency	Community Services Agency	540,149	Contribution to children's program
	Other Governmental Funds	1,297,853	To pay POB debt service
		1,838,002	
Public Facility Fees	General Fund	1,155,671	Capital assets purchases
	Other Governmental Funds	4,441,307	Capital assets purchases
	Health Clinics and Ancillary Services	151,210	Capital assets purchases
		5,748,188	
Other Governmental Funds	General Fund	1,370,447	Various contributions to programs
	Other Governmental Funds	8,233,522	Various contributions to programs and POB debt service
	Health Clinics and Ancillary Services	5,141	Various contributions to programs
		9,609,110	
Health Clinics and Ancillary Services	Other Governmental Funds	5,783,617	Reimburse administrative costs of HSA and POB debt service
Other Enterprise Funds	Behavioral Health and Recovery	954,549	Reimburse administrative costs of programs
	Other Governmental Funds	223,314	To pay POB debt service
		1,177,863	
Fink Landfill	Fink Landfill	625,000	Landfill closure/post-closure
	Geer Landfill	450,000	Landfill closure/post-closure
	Other Government Funds	25,078	To pay POB debt service
		1,100,078	
Internal Service Funds	General Fund	112,044	Return contribution to General Fund
	Other Governmental Funds	720,889	To pay POB debt service and insurance reimbursement
		832,933	
		$ 78,308,214	

COUNTY OF STANISLAUS

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

Note 7: **Capital Assets**

Capital asset activity for the year ended June 30, 2003 was as follows:

	Balance July 1, 2002	Additions	Retirements	Transfers & Adjustments	Balance June 30, 2003
Governmental Activities					
Capital assets, not being depreciated:					
Land	$ 27,995,206	$ 457,567	$ -	$ (124,805)	$ 28,327,968
Total capital assets, not being depreciated	27,995,206	457,567	-	(124,805)	28,327,968
Capital assets, being depreciated:					
Infrastructure	953,396,946	9,023,851	-	17,090,434	979,511,231
Structures and improvements	162,954,482	9,118,807	-	(9,399)	172,063,890
Equipment	42,577,494	5,334,749	(2,162,034)	(707,682)	46,457,891
Total capital assets, being depreciated	1,158,928,922	23,477,407	(2,162,034)	17,788,718	1,198,033,013
Less accumulated depreciation for:					
Infrastructure	(539,892,185)	(24,121,291)	-	(509,791)	(564,523,267)
Structures and improvements	(32,158,485)	(4,487,068)	-	-	(36,645,553)
Equipment	(28,079,598)	(4,021,279)	1,873,119	(89,202)	(30,316,960)
Total accumulated depreciation	(600,130,268)	(32,629,638)	1,873,119	(598,993)	(631,485,780)
Total capital assets, being depreciated, net	558,798,654	(9,152,231)	(288,915)	17,189,725	566,547,233
Government activities capital assets, net	$ 586,793,860	$ (8,694,665)	$ (288,915)	$ 17,064,920	$ 594,875,200
Business-type Activities					
Capital assets, not being depreciated:					
Land	$ 14,399,810	$ -	$ -	$ -	$ 14,399,810
Total capital assets, not being depreciated	14,399,810	-	-	-	14,399,810
Capital assets, being depreciated:					
Structures and improvements	19,394,285	88,196	(9,978)		19,472,503
Equipment	12,608,043	980,152	(576,869)	(13,013)	12,998,313
Total capital assets, being depreciated	32,002,328	1,068,348	(586,846)	(13,013)	32,470,816
Less accumulated depreciation for:					
Structures and improvements	(11,328,410)	(408,141)	-	-	(11,736,551)
Equipment	(10,438,484)	(676,249)	-	741,694	(10,373,039)
Total accumulated depreciation	(21,766,894)	(1,084,390)	-	741,694	(22,109,590)
Total capital assets, being depreciated, net	10,235,434	(16,042)	(586,846)	728,681	10,361,226
Business-type activities capital assets, net	$ 24,635,244	$ (16,042)	$ (586,846)	$ 728,681	$ 24,761,036

Note 7: **Capital Assets** (continued)

Depreciation expense was charged to governmental functions as follows:

General government	$ 2,533,320
Public protection	3,420,111
Public ways	24,509,321
Health and sanitation	615,388
Public assistance	1,011,169
Education	117,240
Recreation	423,089
Total Depreciation Expense – Governmental functions	$ 32,629,638

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

Transit	$ 35,671
Fink Road Landfill	43,486
Geer Road Landfill	712
Behavioral Health Center	217,049
Health Clinics and Ancillary Services	771,700
Inmate Welfare/Commissary	15,772
Total Depreciation Expense - Business-Type Functions	$ 1,084,390

Note 8: **Accounts Receivable**

Accounts receivable net of allowance for uncollectibles includes receivables from federal, state, and local governments in the net amount of $37,556,979. Patient accounts receivable at Health Clinics and Ancillary Services of $26,633,753 net of an allowance for uncollectibles of $19,274,242, leaves a net receivable of $7,359,511. Substantially all other receivables are deemed collectible.

Note 9: **Proprietary Revenue**

Charges for services for Health Clinics and Ancillary Services of $56,469,886, net of discounts and allowances of $20,256,475, leaves a net amount of $36,213,411.

Note 10: **Property Taxes**

The County's property taxes are levied July 1 (Unsecured Roll) and October 1 (Secured Roll) on assessed values established on the lien date of the previous January 1 for all taxable property located within the County. Local assessed values are determined, subject to appeal before the Assessment Appeals Board, by the County Assessor's Office. Locally assessed real property is appraised at the base year value and is adjusted each year after 1975 by the change in the California Consumer Price Index (CPI) not to exceed an increase of 2%. Property is re-appraised from the 1975/76 base year value to current full value upon either (1) a change in ownership, or (2) new construction, as of the date of such transaction or completion of construction (only the newly constructed portion of

Note 10: **Property Taxes** (continued)

the property is re-appraised). Thereafter, it continues to be increased annually by the change in the CPI not to exceed 2%. The total gross assessed value for the 2002/2003 fiscal year is $24,679,602,644.

The County is permitted by Section 93, of the California Revenue and Taxation Code, to levy taxes up to $1.00 per $100 of assessed valuation for general governmental services other than the payment of principal and interest on general obligation bonds or other indebtedness approved by a two-thirds vote of its voters after June 4, 1986. Taxes are allotted to local agencies and school districts as outlined in Sections 95 through 100 of the California Revenue and Taxation Code.

Taxes are due in one installment (Unsecured Roll) on billing and are subject to late payment penalties if paid after August 31, or two installments (Secured Roll) due on November 1 and February 1, and again subject to the late payment penalties if paid after December 10 and April 10, respectively.

The County and its political subdivisions operate under the provisions of Sections 4701-4717 of the California Revenue and Taxation Code (otherwise known as the "Teeter Plan"). Under this method, the accounts of all political subdivisions that levy taxes on the County tax roll are credited with 100% of their respective secured tax levy, regardless of the actual payments and delinquencies. This method then provides for all the delinquent penalties and redemptions flow to the County's General Fund. In addition, Section 4703.2 of the California Revenue and Taxation Code requires that a property tax loss reserve be maintained at not less than 25% of the total delinquent secured taxes as calculated at the end of the fiscal year.

Unsecured taxes are accrued in the period when they are levied and are recognized when they become available. "Available" means, due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. This period was 60 days from the end of the fiscal year.

Property taxes receivable that do not meet the "available" criteria are recorded as deferred revenue.

Note 11: **Leases**

Operating Leases

The County is committed under various operating leases for building and office space and business and data processing equipment. Operating leases do not give rise to property rights or lease obligations and, therefore, the results of the lease agreements are not reflected in the County's government-wide financial statements.

Note 11: Leases (continued)

Aggregate rental expense for all operating leases approximated $3,879,231 for all fund types for the year ended June 30, 2003. The following is a schedule by years of future minimum rental payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of June 30, 2003.

Year Ending June 30	Amount
2004	$ 3,388,438
2005	2,856,112
2006	2,093,668
2007	1,551,512
2008	1,330,577
2009-2013	7,630,674
Total Minimum Lease Payments	$ 18,850,981

Capital Leases

The County has entered into certain capital lease agreements under which the related buildings and equipment will become property of the County when all terms of the lease agreements are met:

	Stated Interest Rate	Present Value of Remaining Payments at June 30, 2003
Governmental activities:		
Buildings	6.45-7.08%	$ 16,850
Vehicles	0.00-7.24%	1,037,461
		1,054,311
Business-type activities:		
Vehicles	7.24%	11,409
Medical equipment	3.00-6.94%	1,018,851
		1,030,260
Total capital lease obligations		$ 2,084,571

Equipment and related accumulated amortization under capital leases are as follows:

	Governmental Activities	Business-type Activities
Buildings	$ 219,441	$ -
Equipment	2,720,304	1,905,318
Less: accumulated depreciation	(841,127)	(797,297)
Net value	$ 2,098,618	$ 1,108,021

Note 11: Leases (continued)

Capital Leases (continued)

Year Ending June 30	Total Governmental Activities	Total Business-type Activities
2004	$ 542,452	$ 431,447
2005	383,639	318,436
2006	142,422	160,834
2007	56,067	160,834
2008	5,553	40,209
Total Minimum Lease Payments	1,130,133	1,111,760
Less: Amounts Representing Interest	(75,822)	(81,500)
Present Value of Minimum Lease Payments	$ 1,054,311	$ 1,030,260

Note 12: **Long-Term Debt**

A. **Summary of Long-Term Debt**

The following is a summary of long-term liability transactions for the year ended June 30, 2003:

	Balance July 1, 2002	Additions	Deletions	Adjustments	Balance June 30, 2003	Amounts Due Within One Year
Governmental Activities:						
Risk management liability	17,932,043	14,634,967	(11,948,541)	-	20,618,469	8,150,492
Certificates of participation	94,826,893	-	(5,183,077)	1,528	89,645,344	5,430,536
Bonds payable	96,630,000	-	(5,025,000)	-	91,605,000	9,920,000
Capital lease payable	1,155,296	423,451	(524,436)	-	1,054,311	493,977
Compensated absences	22,915,541	707,519	(680,844)	-	22,942,216	626,392
Total Governmental Activities	$ 233,459,773	$15,765,937	$ (23,361,898)	$ 1,528	$ 225,865,340	$ 24,621,397
Business-Type Activities:						
Risk management liability	226,000	433,000	-	-	659,000	541,604
Certificates of participation	1,552,888	-	(126,923)	28,691	1,454,656	134,464
Compensated absences	1,555,983	236,788	(6,662)	-	1,786,109	80,921
Capital lease payable	640,513	731,205	(341,458)	-	1,030,260	388,713
Total Business-Type Activities	$ 3,975,384	$ 1,400,993	$ (475,043)	$ 28,691	$ 4,930,025	$ 1,145,702

Note 12: **Long-Term Debt** (continued)

A. **Summary of Long-Term Debt** (continued)

As of June 30, 2003, annual debt service requirements of governmental activities to maturity are as follows:

Year Ending 30-Jun	Governmental Activities: Bonds Payable Principal	Bonds Payable Interest	Certificates of Participation Principal	Certificates of Participation Interest
2004	9,920,000	6,135,162	5,430,536	4,500,975
2005	5,795,000	5,633,306	5,690,952	4,244,344
2006	6,225,000	5,203,591	5,953,312	3,968,749
2007	6,690,000	4,741,880	6,257,200	3,671,958
2008	7,185,000	4,245,849	6,549,560	3,368,097
2009-2013	44,755,000	12,401,496	28,608,784	12,405,317
2014-2018	11,035,000	394,501	29,450,000	4,944,287
2019-2022			1,705,000	42,625
Totals	91,605,000	38,755,785	89,645,344	37,146,352

As of June 30, 2003, annual debt service requirements of business-type activities to maturity are as follows:

Year Ending 30-Jun	Business-Type Activities: Certificates of Participation Principal	Certificates of Participation Interest
2004	134,464	68,619
2005	139,048	62,837
2006	146,688	56,719
2007	152,800	50,118
2008	160,440	43,090
2009-2013	721,216	91,604
Totals	1,454,656	372,987

B. **Long Term Obligations**

Governmental Activities

On June 11, 1992, the County, through the Stanislaus County Capital Improvements Financing Authority, issued $11,120,000 of Certificates of Participation (1992 COPS) at a weighted average interest rate of 6.58%. The proceeds were used to acquire certain office buildings and computer hardware and software for County purposes, and to effect a current refunding of a portion of the California Health Facilities Financing Authority borrowing entered into on July 11, 1989. Repayment is due in semi-annual payments commencing

Note 12: **Long-Term Debt** (continued)

B. **Long Term Obligations** (continued)

Governmental Activities (continued)

December 1, 1992, ranging from $22,605 to $682,605 including interest, through June 1, 2012, at rates ranging from 5.90% to 6.85%. The General Fund, Special Revenue Fund, and Health Clinic and Ancillary Services Enterprise Fund will repay this debt. Principal and interest payments of $365,000 and $24,457, respectively, were made during the fiscal year ended June 30, 2003. The County reports a portion of this liability as governmental activities.

On September 15, 1992, the County, through the Stanislaus County Capital Improvements Financing Authority, issued $10,155,000 of Certificates of Participation at a weighted average interest rate of 5.88%. The proceeds were used to fund the construction of a support services building which will provide kitchen, laundry, housekeeping and commissary services, as well as storage space, for the County jail facility located adjacent to the site. Repayment is due in semi-annual payments commencing June 1, 1993, ranging from $26,797 to $901,797 including interest, through June 1, 2012, at rates ranging from 4.75% to 6.125%. This debt will be paid out of the General Fund. Principal and interest payments of $520,000 and $94,820, respectively, were made during the fiscal year ended June 30, 2003.

On June 22, 1995, the County, through the Stanislaus County Capital Improvements Financing Authority, issued $13,755,000 of Certificates of Participation to advance refund a portion of the 1989 Certificates of Participation. After the refunding, $54,500,000 of the 1989 Certificates remained outstanding. Interest rates range from 4.10% to 5.00% of the 1995 Certificates, with a final maturity in 2008. Annual debt service ranges from $1,436,095 to $1,440,605. Principal and interest payments of $1,085,000 and $354,890, respectively, were made during the fiscal year ended June 30, 2003.

On January 3, 1996, the County, through the Stanislaus County Capital Improvements Financing Authority, issued $55,920,000 of Certificates of Participation at an average rate of 5.5% to advance refund the remaining $54,500,000 outstanding of the 1989 Certificates of Participation that had an average rate of 7.45%. The net proceeds (after payment of $1.2 million in underwriter fees, bond insurance and other issuance costs), plus other funds held by the trustee related to the 1989 Certificates of Participation, were used to purchase federal securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for the payment in full of all outstanding prior certificates on April 1, 1996. As a result, the 1989 Certificates of Participation are considered to be defeased and the liability for those certificates have been removed from the government-wide financial statements. Principal and interest payments of

Note 12: Long Term Debt (continued)

B. **Long Term Obligations** (continued)

Governmental Activities (continued)

$1,935,000 and $2,351,632, respectively, were made during the fiscal year ended June 30, 2003.

The County refunded the 1989 Certificates to reduce its total debt service payments over the next 22 years by $19 million and to obtain an economic gain (difference between the present values of the debt service payment on the old and new debt) of almost $7.9 million.

On September 25, 1995, the County issued $108,970,000 of Taxable Pension Obligation Bonds series 1995. The proceeds were used to pay the Stanislaus County Employees' Retirement Association for the County's unfunded actuarial accrued liability. The bond is a term bond due August 15, 2013, with an interest rate of 7.15%, interest due semi-annually on February 15 and August 15. The annual payments must be deposited with the trustee by July 31 of each year, and range in amount for $394,501 to $11,432,995. The debt service payments are accumulated through departmental charges, with the rate being determined by actuarial analysis in conjunction with normal retirement contribution rates. Interest payments of $6,405,864 were made during the fiscal year ended June 30, 2003.

On May 13, 1997, the County, through the Stanislaus County Capital Improvements Financing Authority issued $12,035,000 of Certificates of Participation at a weighted average interest rate of 5.5% to finance the construction of an agricultural center and a police officer standards training facility. Repayment is due in semi-annual payments commencing November 1, 1997, ranging from $29,700 to $1,019,700 including interest, through May 1, 2017, at rates ranging from 4.60% to 6.00%. This debt will be repaid by the General Fund. Principal and interest payments of $470,000 and $580,933, respectively, were made during the fiscal year ended June 30, 2003.

On December 16, 1997, the County, through the Stanislaus County Capital Improvements Financing Authority, issued $10,630,000 of Certificates of Participation (1997 COP) at a weighted average interest rate of 4.43%. The proceeds were allocated to advance refund a portion of the remaining outstanding balance of the 1992 Series A and Series B Certificates of Participation. Repayment is due in semi-annual payments commencing June 1, 1998, ranging from $37,625 to $1,542,625, and includes interest through June 1, 2012, at rates ranging from 3.75% to 5.00%. This debt will be repaid by the General Fund and Health Clinic and Ancillary Services Enterprise Fund. Principal and interest payments of $90,000 and $488,465, respectively, were made during the fiscal year ended June 30, 2003. The County reports a portion of this liability as business-type activities.

Note 12: Long Term Debt (continued)

B. **Long Term Obligations** (continued)

Governmental Activities (continued)

The refunded portion of the 1992 Series A Certificates amounts to $4,625,000 with an average rate of 6.73% and the refunded portion of the 1992 Series B Certificates amounts to $5,165,000 with an average rate of 6.042%. The net proceeds (after payment of $386,455 in underwriting fees, insurance and other issuance costs) plus other funds held by the trustee related to the 1992 Series A and Series B Certificates of Participation were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for a portion of the future debt service payments on the 1992 Series A and Series B Certificates. As a result, a portion of the 1992 Series A and Series B Certificates are considered to be defeased and the liability for those certificates has been removed from the general long-term debt account group. At June 30, 2003, the outstanding portion is $1,130,000.

The County advance refunded a portion of the 1992 Series A and Series B Certificates of Participation to reduce its total debt service payments over the next 14 years by almost $1.5 million and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately $1.7 million.

On March 1, 1998, the County, through the Stanislaus Capital Improvements Financing Authority, issued $22,160,000 of Certificates of Participation to finance the acquisition of real property and construct a portion of a government office building within the City of Modesto, CA. Interest rates range from 3.75% to 4.75% with a final maturity in 2018. Annual debt service ranges from $1,005,044 to $1,775,325. Principal and interest payments of $845,000 and $928,672 were made during the fiscal year ending June 30, 2003.

On July 24, 2001, the Stanislaus County Redevelopment Agency issued $4,525,000 of Loan Anticipation Notes at an average rate of 3.09%. The Notes are a bridge loan, the proceeds of which will primarily be used to finance the construction of certain storm drainage infrastructure in the town of Salida. The Notes are expected to be paid at maturity from proceeds of a loan from Rural Utilities Service of Rural Development, United States Department of Agriculture. Principal is all due and payable on the maturity date, September 1, 2003. Interest is payable on January 1, 2002 and on each July and January 1 thereafter and on the maturity date. Interest payment of $135,750 was made during the fiscal year ended June 30, 2003.

Business-Type Activities

On June 11, 1992, the County, through the Stanislaus County Capital Improvements Financing Authority, issued $11,120,000 of Certificates of

Note 12: **Long-Term Debt** (continued)

B. **Long-Term Obligations** (continued)

Business-Type Activities (continued)

Participation (1992 COPS) at a weighted average interest rate of 6.58%. The proceeds were used to acquire certain office buildings and computer hardware and software for County purposes, and to effect a current refunding of a portion of the California Health Facilities Financing Authority borrowing entered into on July 11, 1989. Repayment is due in semi-annual payments commencing December 1, 1992, ranging from $22,605 to $682,605 including interest, through June 1, 2012, at rates ranging from 5.90% to 6.85%. The General Fund, Special Revenue Fund, and Health Clinic and Ancillary Services Enterprise Fund will repay this debt. Principal and interest payments of $365,000 and $24,457, respectively, were made during the fiscal year ended June 30, 2003. The County reports a portion of this liability as governmental activities.

On December 16, 1997, the County, through the Stanislaus County Capital Improvements Financing Authority, issued $10,630,000 of Certificates of Participation (1997 COP) at a weighted average interest rate of 4.43%. The proceeds were allocated to advance refund a portion of the remaining outstanding balance of the 1992 Series A and Series B Certificates of Participation. Repayment is due in semi-annual payments commencing June 1, 1998, ranging from $37,625 to $1,542,625, and includes interest through June 1, 2012, at rates ranging from 3.75% to 5.00%. This debt will be repaid by the General Fund and Health Clinic and Ancillary Services Enterprise Fund. Principal and interest payments of $90,000 and $488,465, respectively, were made during the fiscal year ended June 30, 2003. The County reports a portion of this liability as governmental activities.

Note 13: **Solid Waste Landfill Closure and Postclosure Care Costs**

There are two solid waste landfill sites in the County. The Find Road Sanitary Landfill is owned by the County and is currently operating. The Geer Road Sanitary Landfill is on land jointly owned by the City of Modesto and the County of Stanislaus. This landfill has reached capacity and was closed in June 1990. The County of Stanislaus, by and through its Board of Supervisors, administered the closure operations of the Geer Road Landfill. Both landfills are reported in their entirety as enterprise funds.

State and federal laws require the County to close a landfill once its capacity has been reached and to monitor and maintain the site for thirty subsequent years. The County recognizes a portion of the closure and postclosure care costs in each operating period even though actual payouts will not occur until a landfill is closed. The amount recognized each year to date is based on the landfill capacity used as of the balance sheet date.

COUNTY OF STANISLAUS

Notes to the Basic Financial Statements
For the Year Ended June 30, 2003

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

	Fink Road	Geer Road	Total
Estimated total liability for closure/ postclosure at June 30, 2003	$ 18,440,768	$ 11,597,935	$ 30,038,703
Liability recognized as of June 30, 2003	5,792,534	11,597,935	17,390,469
Landfill capacity used to date	31.41%	100%	--
Estimated remaining useful life	20	--	--

The estimated costs of closure and postclosure care are subject to changes such as the effects of inflation, technology, revision of laws and other variables. State and federal laws require the County to establish a closure fund to accumulate assets needed for the actual payout of closure and postclosure care costs. Of the restricted cash and investments in the Proprietary fund types, the following amounts are held for this purpose:

Fink Road Landfill	11,341,333
Geer Road Landfill	6,752,697

Note 14: **Net Assets/Fund Balances**

Net Assets

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

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

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

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

Note 14: Net Assets/Fund Balances (continued)

As of June 30, 2003, the County had the following restrictions to net assets:

	Governmental Activities	Business-type Activities
Restricted for:		
Capital projects	$ 46,583,057	-
Capital projects - tobacco settlement	53,979,399	-
Capital projects - redevelopment	1,972,501	-
Debt service	10,774,967	200,338
Landfill closure/post-closure	-	18,094,030
Inmate welfare	-	1,925,542
Transit	-	810,396
Children & families commission	23,773,818	-
Road construction	1,334,279	-
Tax loss reserve fund	1,240,166	-
Behavioral health & recovery	5,611,610	-
Child support service	2,512,388	-
Public assistance	1,493,561	-
Public health	3,229,652	-
Environmental resources	925,023	-
Lighting & storm drain districts	1,847,632	-
Clerk-recorder - fixed assets	2,425,956	-
Library	1,344,495	-
Cpa 2000	2,009,525	-
Other	2,404,477	-
	$ 163,462,506	$ 21,030,306

Fund Balances

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

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

Note 14: Net Assets/Fund Balances (continued)

Fund Balances (continued)

As of June 30, 2003, the County has reserved or designated fund balances as follows:

Reserved for Encumbrances: This represents that portion of fund balance reserved for encumbrances existing at year end which will result in subsequent year expenditures.

Reserved – Advances to Other Funds: This represents the portion of fund balance reserved for loans to other funds that are not expected to be repaid in the short-term.

Reserved – Advance to other governments: This represents the portion of fund balance reserved for loans to other governments that are not expected to be repaid on the short-term.

Reserved – Other: This represents that portion of fund balance unavailable for appropriation for the following reasons:

	General Fund	Special Revenue
Deposits with others	$ 8,645	$ -
Inventory		378,328
Imprest cash	85,310	46,732
Prepaid items		343,244
General reserve	1,800,000	
Tax loss reserve	1,240,166	
Total	$ 3,134,121	$ 768,304

Reserved for Cash with Fiscal Agent: This represents that portion of borrowings which are held in reserve accounts by trustees and that portion of borrowings held in interest reserve accounts for interest payments.

Designated for Debt Service: This represents that portion of available fund balance segregated to meet future principal and interest payments on debt.

Designated for Contingencies: This represents that portion of available fund balances set aside for emergency and unforeseen expenditures.

Note 15: **Risk Management**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Note 15: Risk Management (continued)

The County has a risk management program with respect to workers' compensation, general and professional liability, unemployment, vision and dental care. Under its existing workers' compensation insurance plan, the County is responsible for $500,000 per occurrence, with a commercial insurance company providing certain liability coverage for up to $5,000,000. The general liability insurance covers property damage, personal injury, auto, and public officials' errors and omissions. General liability, auto, and public officials' errors and omissions are the County's responsibility for up to $250,000 per occurrence, with the excess insured by the CSAC Excess Insurance Authority for up to $9,750,000. The County has also purchased optional excess liability coverage in the amount of $10 million. Property damage is insured by a commercial carrier for $385,403,877 with a $10,000 deductible. Unemployment, vision care, and dental insurance are the responsibility of the County. Limited exposure precludes the need for outside coverage.

The Health Services Agency Clinics and Ancillary Services, and the Behavioral Health and Recovery Department participate in the medical malpractice program administered by the CEO Risk Management Division. Under this program, the County has a self-insured retention of $500,000 per occurrence and pays all defense costs. The County also carries excess insurance coverage up to $10,000,000 per claim.

There was no reduction in insurance coverage from the prior year. There were no settlements in excess of insurance coverage for each of the past three fiscal years.

Changes in the balances of claims liabilities during the past fiscal year are as follows:

	2001/02	2002/03
Unpaid claims as of July 1	$ 14,492,075	$ 18,158,043
Incurred claims (including IBNRs)	15,244,842	15,067,967
Claim payments	(11,578,874)	(11,948,541)
Unpaid claims as of June 30	$ 18,158,043	$ 21,277,469

The County is a defendant in several legal actions. In the opinion of County Counsel, it is probable the potential liability for these matters could exceed the County's general liability self-insurance retention of $250,000. Any excess over $250,000 would be covered by excess insurance coverage explained above.

Note 15: Risk Management (continued)

In addition, the County is a defendant in a number of other lawsuits or proceedings arising in the normal course of its activities where the ultimate outcome cannot be predicted with certainty. Management does not expect that these matters will have a material adverse effect on the consolidated financial position or results of operations of the County.

Further, the County participates in a number of federally assisted grant programs. These programs are subject to financial and compliance audits by the grantors or their representatives. Some audits of these programs prior to and for the year ended June 30, 2003, have not been conducted or concluded. Accordingly, the County's compliance with applicable grant requirements will be established at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the County expects such amounts, if any, to be immaterial.

The County has recorded an interfund receivable in the General Fund from the Health Clinics and Ancillary Services Enterprise Fund in the amount of $20,489,032 and has determined there is a reasonable possibility of impairment of the asset, however, an estimate of the amount of loss cannot be made.

Note 16: **Commitments**

Waste Energy Agreement

The County, along with the City of Modesto (together known as the Contracting Communities), has various agreements with Stanislaus Waste Energy Company (SWEC) whereby SWEC will accept, process, and dispose of acceptable waste from the Contracting Communities as defined in the agreements. As part of the agreements, SWEC constructed a waste energy facility (the Facility) financed by a bond issue through the California Pollution Control Financing Authority. These bonds were refinanced (see Note 17).

As part of a service agreement between SWEC and the Contracting Communities, the County is to pay a fee (service fee) for processing waste that is formula based and subject to escalation adjustments. The service fee includes debt service, operation and maintenance expenses, and certain pass-through costs. The service fee is reduced by 90% of the energy revenue received by SWEC. The agreement expires in 2010 and contains a fair market value purchase option at the expiration of the initial term. Net service fees paid under the agreement were approximately $7,064,950 for the year ended June 30, 2003.

In addition to the service fee, the County is required to maintain a resource recovery account, which shall hold a minimum balance equal to three months' estimated service fee. The resource recovery account is pledged for the service fee obligation and is held by the County in its Agency funds. The obligation to pay the service fee is nonrecourse to the general credit of the County.

Note 16: **Commitments** (continued)

Waste Energy Agreement (continued)

In addition to the service agreement, the County entered into a facility site lease agreement with SWEC to lease the site where the Facility is located for $400,000 per year. The term of the lease is 35 years, expiring in 2021, and contains a 15-year option to renew at the lessee's (SWEC) option.

Construction Contracts

The County has entered into contracts to complete the renovation of existing office space, to construct a performing arts center, to begin work on a new parking garage/office structure and to remodel space for the Salida Library. At June 30, 2003, the contractual amount remaining was $1,213,772.

The County has entered into agreements with South San Joaquin Irrigation District to pay for one half the cost of constructing water treatment improvements at Woodward Reservoir. The County's share is not to exceed $3.0 million. At June 30, 2003, the remaining commitment was $2.0 million.

Note 17: **Joint Ventures**

Stanislaus Waste-to-Energy Financing Agency

Stanislaus Waste-to-Energy Financing Agency (Agency) was created May 1, 1989, pursuant to a joint exercise of powers agreement between the City of Modesto and the County of Stanislaus. The Agency is administered by a commission consisting of two members of the City council and two members of the County's Board of Supervisors. The agreement provides that the City and the County shall pay for costs associated with the operation of the Agency and are entitled to all rights and property of the Agency equally. On May 1, 1990, the Agency issued Certificates of Participation to refinance the bonds mentioned in Note 16. And on February 1, 2000 Refunding Revenue Certificates were issued to refinance the 1990 COPs. Outstanding debt of the Agency at June 30, 2003 is $50,110,000. Financial statements for the Agency are produced biannually and are available from the County of Stanislaus.

Tuolumne River Regional Park

The County participates with the City of Modesto and the City of Ceres in the operation and development of the Tuolumne River Regional Park (TRRP). The governing body consists of two members from each city council and the County Board of Supervisors.

The TRRP Board prepares the annual budget, which must be approved by both cities' councils and the Board of Supervisors. Each participant has an equity interest in the assets

Note 17: **Joint Ventures** (continued)

Tuolumne River Regional Park (continued)

of the Park based on the percentage of cumulative contributions paid. As of June 30, 2003, the County's equity interest was $2,102,183 and is included as part of the unrestricted net assets in the Government-wide Statement of Net Assets. For the fiscal year ending June 30, 2003, the County contributed $226,108 to TRRP. Financial statements for TRRP are prepared by the City of Modesto Finance Department and are available from them.

Stanislaus Drug Enforcement Agency

Stanislaus County and the cities of Modesto, Oakdale, Ceres, Patterson, Turlock, Riverbank and Newman are the participants in the Stanislaus Drug Enforcement Agency (SDEA). The purpose of the SDEA is to maintain a specially trained police unit to assist each of the participating agencies in the enforcement of drug control laws, and to study, plan and set priorities for effective enforcement of such laws throughout Stanislaus County. The governing body consists of the Sheriff to Stanislaus County and the chief of police for each participating city. All participants contributed to the funding of the SDEA budgeted expenditures, based on population and assessed property value. The County's contribution to the SDEA for fiscal year 2003 was $405,668. Upon termination of the agreement, assets will be distributed based on total contributions from each participant. Financial statements of the SDEA are available from the County.

California Identification System Remote Access Network

The County of Stanislaus and nine cities within the county have formed a local policy board to participate in the State Department of Justice CAL-ID program. This program is an integrated fingerprint identification system using a remote access network. The responsibilities of the local board include making budget recommendations, purchasing necessary equipment for the remote access network, obtaining funding, and establishing local policy. Annual contributions by all participating jurisdictions are determined based on the population of their jurisdiction as a percent of the total population. As part of the Joint Powers Agreement, the financial records of the CAL-ID program are kept by the County and will be found in the non-major special revenue funds of these financial statements.

The City-County Capital Improvements and Financing Agency

The City-County Capital Improvements and Financing Agency (Agency) was created December 17, 1996, pursuant to a joint exercise of powers agreement between the City of Modesto and the County of Stanislaus. The Agency is administered by a six-member commission consisting of two members of the City Council, two members of the County's Board of Supervisors, the County Chief Executive Officer and the City Manager. The Agency prepares the annual and project budgets, which must be approved by both the City Council and the Board of Supervisors. Each participant has an equity interest in the assets

Note 17: **Joint Ventures** (continued)
The City-County Capital Improvements and Financing Agency (continued)

of the Agency in accordance with any project agreements or in the percentages as agreed upon by the Agency which percentages shall be reviewed and approved in connection with the project and annual budgets of the Agency. As of June 30,2003, the County's equity interest in the Agency was $17,905,575 and is included as part of the unrestricted net assets in the Government-wide Statement of Net Assets. The financial statements of the Agency are the responsibility of the County and are part of the nonmajor capital project funds of these financial statements.

The California County Tobacco Securitization Agency

In November 1998, the attorneys general of 46 states (including California) and various other public entities (collectively, the "Settling States") and the four largest United States tobacco manufacturers entered into a master settlement agreement (MSA) in resolution of cigarette smoking-related litigation. The MSA effectively releases the manufacturers from past, present and future smoking related claims in exchange for, among other things, certain payments to be made to the Settling States.

On August 5, 1998 the counsel for the State of California and various jurisdictions therein ("participating jurisdictions") entered into a memorandum of understanding (MOU), made to the State of California in accordance to the MSA. However, the payments under the MSA are subject to numerous adjustments and potential delays.

On November 15, 2000, the County entered into a Joint Powers Agreement (the "Agreement") with the County of Merced, County of Sonoma, and the County of Kern thereby creating the California County Tobacco Securitization Agency (the "Agency"). The Agency included the County of Marin, County of Placer and the County of Fresno as of May 1, 2002. The Agency is governed by a Commission, which is comprised of two designees of the Board of Supervisors of each member.

The purpose of the Agreement is to provide for the exercise of powers common to each member, including, but not limited to, the power to insure, hedge or otherwise manage the risks associated with the receipt of the MSA payments. In furtherance of it's purpose, the Agency has been empowered to issue Bonds secured by the MSA payments of one or more members, the proceeds of which will be used directly or indirectly to purchase all or a portion of the rights to the MSA payments from a member or members.

On March 1, 2002, the Stanislaus County Tobacco Funding Corporation, a component unit of the Agency, entered into an agreement with the Agency for the purpose of issuing bonds in the principal amount of $67,305,000 to acquire the County's rights to receive the MSA payments when and as such funds are available. The County agreed to sell its rights, title and interest of the money due under the MSA and the MOU for $52,403,206. The financial statements of the Agency are produced annually and are available from the County of Stanislaus.

Note 18: **Jointly Governed Organizations**

Arson Task Force

The County, in conjunction with thirty other cites and fire districts, created an Arson Task Force. The purpose of the Task Force is to assist in the enforcement of arson laws, as well as providing investigation and prosecution support to all parties of the Task Force. The governing body of the Task Force is a committee comprised of the Fire Warden of Stanislaus County, the District Attorney of Stanislaus County, and the fire chief of each participating city and district. There is no financial obligation to the Task Force by any participating agency.

San Joaquin Valley Unified Air Pollution Control District

The County and seven other counties located in the San Joaquin Valley air basin have merged their respective air pollution control districts into the San Joaquin Valley Unified Air Pollution Control District (Unified District). The purpose of the Unified District is to establish a single, integrated agency under one centralized management structure that is able to implement programs on a valley-wide basis. The governing board of the Unified District consists of one supervisor from each of the eight counties, plus three city members appointed by the cities within the eight counties. It is the intent of the parties that the Unified Districts be self-supporting and funded through permit fees, penalties, and subventions.

Note 19: **Deferred Compensation Plan**

The County offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all full-time County employees, and administered by either Diversified Investment Advisors or ITT Hartford, permits participants to defer a portion of their salary until future years. For all part-time employees under the age of 70, participation in the deferred compensation plan, administered by the Public Agency Retirement System (PARS), is mandatory in lieu of FICA. The part-time employees pay a 5.5% share of the amount deposited with the plan and the County pays the other 2%. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under these plans, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries. These assets are not included on the books of the County and are not subject to the claims of the County's general creditors.

Full-time employee investments are managed by the plan's trustee under numerous investment options. The choice of the investment option(s) is made by the participants. The plan's trustee, for part-time employees, makes all investment decisions.

Note 20: **Employees' Retirement Plan**

The County is a major participant in the Stanislaus County Employees Retirement Association (StanCERA), a retirement system organized under the 1937 Retirement Act. StanCERA is a cost-sharing multiple-employer Public Employee Retirement System (PERS).StanCERA provides retirement and disability benefits, annual cost-of-living adjustments, death benefits and health and welfare insurance for certain retirees and their dependents. The plan is administered by the Stanislaus County Employees Retirement Association. One actuarial valuation is performed for the system as a whole and the contribution rate is determined for each participating entity. The participating entities are the County, City of Ceres, and six special districts located in the County that are not governed by the County's Board of Supervisors. StanCERA issues a publicly available financial report that includes financial statements and required supplementary information for StanCERA. The financial report may be obtained by writing to Stanislaus County Employees Retirement Association, P.O. Box 3150, Modesto, CA 95353-3150 or by calling (209) 525-6393.

The financial statements of StanCERA are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. All other securities are valued at the last reported sales price at current exchange rates. No investment in any single asset represents more than 5% of the net assets available for pension benefits.

The StanCERA has five tiers of retirement benefits, all or some of which are offered to General and Safety members, respectively. The benefits known as Tier 1, Tier 2, Tier 4, and Tier 5 vest after five years of credited service, while the benefit known as Tier 3 vests after ten years of credited service. Vested General members with Tier 1, Tier 2, Tier 4 or Tier 5 benefits may retire at age fifty or older with ten or more years of qualifying service or at any age with thirty or more years of qualifying service. Vested Safety members with Tier 1, Tier 2, Tier 4 or Tier 5 benefits may retire at age fifty or older with ten years of qualifying service or at any age with twenty or more years of service. All Tier 3 members may retire at age fifty-five with ten or more years of qualifying service.

For members with Tier 1, Tier 4 or Tier 5 benefits, final average salary is the average monthly salary based on the highest twelve consecutive months of earnings. For members with Tier 2 or Tier 3 benefits, final average salary is the average monthly salary based on the highest thirty-six consecutive months of earnings.

The retirement benefit for Tier 1, Tier 2 Tier 4 and Tier 5 members includes a post-retirement cost-of-living (COL) adjustment based upon the Consumer Price Index. COL increases/decreases are limited to a maximum of 3% annually. Total COL decrease(s)

Note 20: **Employees' Retirement Plan** (continued)

cannot exceed the cumulative amount of previous COL increase(s). Tier 1, Tier 2, Tier 4 and Tier 5 provide death and disability benefits.

Those members participating in Tier 1, Tier 2, Tier 4 and Tier 5 are required by statute to contribute to the pension plan. Members' contribution rates are formulated on the basis of the age at date of entry and the actuarially calculated future benefits. The County is required by statute to contribute the remaining amounts necessary to finance the estimated benefits accrued to its members. Benefits and contribution provisions are established by state law subject to amendment only by a legislative act of the State of California. Alternative benefit and contribution schedules are permissive with approval of the Board of Supervisors.

In addition to providing pension benefits, StanCERA sponsors health insurance for certain retirees and their dependents. Substantially all of the active members may become eligible for those benefits if they reach normal retirement age. Currently, 1,360 retirees are active participants in the health care plans, and they received post-retirement health care benefits in the amount of $6,454,071 for the year ending June 30, 2003. StanCERA sponsored health insurance benefits are not vested and may be discontinued with 90 days notice.

StanCERA also provides a death benefit of $5,000 paid to the beneficiary or estate if a member dies after retirement, provided that Stanislaus County was the members last public employer.

Post-employment health care benefits are funded from excess earnings of the retirement association. The County does not contribute towards post-employment benefits other than retirement. The actuarial study dated June 30, 1998 projected the liability level for health care premium to be $93,346,000 based on current utilization. As of June 30, 2003, the funding for post-retiree's health premium reserve is $110,698,145.

The County's contribution to StanCERA for the years ending June 30, 2001, 2002 and 2003 were $6,044,594, $9,827,993 and $14,572,417, respectively, equal to the required contributions for each year.

Note 21: **Subsequent Event**

On October 15, 2003, the county issued $45,000,000 of one-year Tax and Revenue Anticipation Notes at a coupon interest rate of 2.0%. The true interest cost is 0.99334%. The notes are secured by a pledge of unrestricted revenues received during fiscal year ended June 30, 2004. The notes mature on October 14, 2004.

On October 3, 2003, the County settled a lawsuit prior to a jury verdict for $1.9 million. The terms of the settlement included the County acquiring property and buildings valued at $1,950,000 next to the Geer Road landfill.

Required Supplementary Information

COUNTY OF STANISLAUS

Required Supplementary Information
For the Year Ended June 30, 2003

Stanislaus County Employees' Retirement Association (StanCERA)
Schedule of Funding Progress

The actuarial value of assets as a percentage of the actuarial liability and the unfunded actuarial accrued liability as a percentage of the annual covered payroll as of June 30, 2002 are obtained from StanCERA's annual actuarial report. The report for this fiscal year is not yet available. As such, the information for this fiscal year is not reflected in the following three-year analysis:

Funded Status of Plan
(In thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	(UAAL) as a Percentage of Covered Payroll ((b-a)/c)
07/01/2000	$ 679,421	$ 666,114	$ (13,307)	102.0	$ 157,010	(8.5)
07/01/2001	784,114	781,495	(2,619)	100.3	174,595	(1.5)
07/01/2002	878,821	870,768	(8,053)	100.9	196,471	(4.1)

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APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Trust Agreements and the Leases which are not described elsewhere. The terms of each Trust Agreement are substantially similar, and the terms summarized below apply to both the Series 2004A Trust Agreement and Series 2004B Trust Agreement except where otherwise indicated. The terms of each Lease are substantially similar, and the terms summarized below apply to both the Series 2004A Lease and Series 2004B Lease except where otherwise indicated. This summary does not purport to be comprehensive and reference should be made to the respective agreement for a full and complete statement of the provisions thereof.

Each Series of the Certificates is separately issued and secured under its related Trust Agreement, which pertains exclusively to the related Series of Certificates, the related Lease Agreement, the related Lease Payments and the related Property. The Owners of a Series of Certificates will have no claim on the revenues or funds securing the other Series of Certificates or on any other revenues held under the Trust Agreement for the other Series.

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENTS

DEFINITIONS

Unless the context otherwise requires, the terms defined below will for all purposes below have the meanings defined below, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined below. All capitalized terms used below and not defined below shall have the meanings ascribed thereto in each Lease.

"Additional Certificates" means certificates of participation authorized by a supplemental Trust Agreement that are executed and delivered by the Trustee under and pursuant to the Trust Agreement.

"Additional Payments" means all amounts payable by the County as Additional Payments as defined in the Lease.

"Assignment Agreement" means each respective Assignment Agreement related to the Certificates, dated as of the date of each respective Trust Agreement, by and between the Trustee and the Authority, and any duly authorized and executed amendments thereto.

"Authority" means the Stanislaus County Capital Improvements Financing Authority, a joint exercise of powers authority organized under the laws of the State, its successors and assigns.

"Authority Representative" means the Chair of the Authority, or any other person authorized to act on behalf of the Authority under or with respect to the Lease.

"Beneficial Owner" means any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Certificates (including persons holding

Certificates through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Certificates for federal income tax purposes.

"Business Day" means any day other than (i) a Saturday or Sunday, or (ii) a day on which banking institutions in the State of New York or the State of California are authorized or required by law or executive order to remain closed.

"Certificates" means (i) with respect to the Series 2004A Trust Agreement, the $15,340,000 County of Stanislaus Certificates of Participation (2004 Capital Improvement Projects), Series 2004A (the "Series 2004A Certificates"), and (ii) with respect to the Series 2004B Trust Agreement, the $27,455,000 County of Stanislaus Certificates of Participation (2004 Capital Improvement Projects), Series 2004B (the "Series 2004B Certificates"), each to be executed and delivered by the Trustee pursuant to the respective Trust Agreement.

"Certificate Year" means the period extending from September 1 each calendar year to August 31 of the subsequent calendar year, provided that the first Lease Year will commence on the Closing Date and end on August 31, 2005.

"Closing Date" means the date on which the Certificates, duly executed by the Trustee, are delivered to the Original Purchaser thereof.

"Code" means the Internal Revenue Code of 1986, and the regulations issued under the Trust Agreement, as the same may be amended from time to time, and any successor provisions of law.

"Completion Certificate" means a certificate of the County Representative stating that all components of the Project have been completed or concluded in conformity with the requirements of the Lease.

"Construction Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement dated as of April 1, 2004, by and between the County and the Trustee, as dissemination agent, as it may be amended from time to time in accordance with the terms thereof.

"Costs of Issuance" means all expenses incurred in connection with the authorization, sale, execution and delivery of the Certificates and the application of the proceeds of the Certificates, including but not limited to all compensation, fees and expenses (including but not limited to fees and expenses for legal counsel) of the County, the Authority and the Trustee, compensation to any financial consultants or underwriters, legal fees and expenses, the premium for the Insurance Policy, any insurance policy deposited in the Reserve Fund to satisfy the Reserve Requirement, filing and recording costs, rating agency fees, costs of preparation and reproduction of documents and costs of printing.

"Costs of Issuance Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Costs of Issuance Requisition" means a written requisition substantially in the form attached to the Trust Agreement.

"County" means the County of Stanislaus, a body corporate and politic organized and existing under the laws and Constitution of the State, and its successors and assigns.

"County Representative" means the Chief Executive Officer or the Assistant Chief Executive Officer of the County, and any other person authorized by the Board of Supervisors of the County to act on behalf of the County under or with respect to the Trust Agreement.

"Delivery Date" means the date on which the Certificates are executed and delivered to the Original Purchaser.

"Depository" means the securities depository acting as depository pursuant to the Trust Agreement.

"DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York in its capacity as securities depository for the Certificates.

"Event of Default" means an event of default under the Lease, as defined therein.

"Fiscal Year" means the fiscal year of the County commencing July 1 and ending June 30 of the next year.

"Government Obligations" means Permitted Investments of the type described in paragraph (1) of the definition thereof.

"Independent Counsel" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the Authority, the Trustee or the County.

"Insurance Business Day" means any day other than (i) a Saturday or Sunday, or (ii) a day on which the Insurance Trustee or lending institutions in the State of New York are authorized or required by law or executive order to remain closed.

"Insurance Policy" means the financial guaranty insurance policy issued by the Insurer insuring the payment when due of the principal of and interest with respect to the Certificates as provided therein.

"Insurer" means Ambac Assurance Corporation, a Wisconsin-domiciled stock insurance company incorporated under the laws of the State of Wisconsin, and licensed to do business in the State of California, or any successor thereto or assignee thereof.

"Interest Payment Date" means March 1 and September 1 of each year commencing September 1, 2004.

"Lease" means with respect to the Series 2004A Certificates the Lease/Purchase Agreement related to the Series 2004A Certificates and with respect to the Series 2004B Certificates means the Lease/Purchase Agreement related to the Series 2004B Certificates, each dated as of the date of each Trust Agreement, by and between the County and the Authority, and any duly authorized and executed amendments thereto.

"Lease Payment" means any payment required to be paid by the County to the Authority pursuant to the Lease.

"Lease Payment Date" means each February 15 and August 15 commencing August 15, 2004, or if such day is not a Business Day, then the next succeeding Business Day.

"Lease Payment Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Letter of Representations" means the letter of the County delivered to and accepted by the Depository on or prior to delivery of the Certificates as book-entry certificates making reference to the DTC Operational Arrangements memorandum, as it may be amended from time to time, setting forth the basis on which the Depository serves as depository for such book-entry certificates, as such letters were originally executed or as they may be supplemented or revised or replaced by letters from the County and the Trustee delivered to and accepted by the Depository.

"Moody's" means Moody's Investors Service or any successors or assigns thereto.

"Net Proceeds" means any proceeds of any insurance, performance bonds or taking by eminent domain or condemnation paid with respect to the Property remaining after payment therefrom of any expenses (including attorneys' fees) incurred in the collection thereof.

"Net Proceeds Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Nominee" means the nominee of the Depository, which may be the Depository, as determined from time to time pursuant to the Trust Agreement.

"Original Purchaser" means UBS Financial Services Inc., as the original purchaser of the Certificates on the Closing Date.

"Outstanding" when used as of any particular time with respect to Certificates, means (subject to the provisions of the Trust Agreement) all Certificates theretofore executed and delivered by the Trustee under the Trust Agreement except:

(a) Certificates theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation;

(b) Certificates for the payment or prepayment of which funds or Government Obligations, together with interest earned thereon, in the necessary amount will have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice of such prepayment will have been given as provided in the Trust Agreement or provision satisfactory to the Trustee will have been made for the giving of such notice; and

(c) Certificates in lieu of or in exchange for which other Certificates will have been executed and delivered by the Trustee pursuant to the Trust Agreement.

Notwithstanding anything in the Trust Agreement to the contrary, in the event that the principal and/or interest with respect to the Certificates shall be paid by the Insurer pursuant to the Insurance Policy, the Certificates shall remain Outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the County.

"Owner" or "Certificate Owner" or "Owner of a Certificate", or any similar term, when used with respect to a Certificate means the person in whose name such Certificate is registered on the registration books maintained by the Trustee.

"Participants" means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds book-entry certificates as securities depository.

"Permitted Investments" means, if and to the extent permitted by law and by any policy guidelines promulgated by the County:

(1) For all purposes including defeasance investments in refunding escrow accounts (the Trustee is entitled to rely upon investment direction of the County as a certification that such investment is a Permitted Investment):

(a) cash (insured at all times by the Federal Deposit Insurance Corporation); or

(b) obligations of, or obligations guaranteed as to principal and interest by, the United States of America or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the United States of America, including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

(2) For all purposes other than defeasance investments in refunding escrow accounts:

(a) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including: Export-Import Bank, Rural Economic Community Development Administration, U.S. Maritime Administration, Small Business Administration, U.S. Department of Housing & Urban Development (PHA's), Federal Housing Administration and Federal Financing Bank;

(b) direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America: senior debt obligations rated "Aaa" by Moody's or "AAA" by S&P issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC), obligations of the

Resolution Funding Corporation (REFCORP), senior debt obligations of the Federal Home Loan Bank System and senior debt obligations of other Government Sponsored Agencies approved by the Insurer;

(c) U.S. dollar denominated deposit accounts and bankers' acceptances with domestic commercial banks (including those of the Trustee and its affiliates) which have rating on their short term certificates of deposit on the date of purchase of "A-1" or "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (ratings on holding companies are not considered as the rating of the bank);

(d) commercial paper which is rated at the time of purchase in the single highest classification, "A-1+" by S&P and "P-1" by Moody's and which matures not more than 270 days after the date of purchase;

(e) investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P, including funds for which the Trustee or its affiliates provide investment advisory or other management services;

(f) pre-refunded Municipal Obligations defined as follows: Any bonds or other obligations or any state of the United States of America of any agency, instrumentality or local governmental unit of any such state, which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

(i) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of S&P or Moody's or any successors thereto; or

(ii) (1) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (1)(b) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (2) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;

(g) municipal obligations rated "Aaa/AAA" or general obligations of states with a rating of at least "A2/A" or higher by both Moody's and S&P;

(h) investment agreements approved in writing by the Insurer (supported by appropriate opinions of counsel);

(i) the Local Agency Investment Fund of the State, created pursuant to Section 16429.1 of the California Government Code, to the extent the Trustee is authorized to register such investment in its name; and

(j) other forms of investments (including repurchase agreements) approved in writing by the Insurer.

The value of the above investments shall be determined as follows:

"Value" which shall be determined as of the end of each month, means that the value of any investments shall be calculated as follows:

(a) for the purpose of determining the amount of any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include, but are not limited to, pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Salomon Smith Barney, Bear Stearns, or Lehman Brothers.

(b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus accrued interest.

(c) As to any investment not specified above: the value thereof established by prior agreement between the County, the Trustee and the Insurer.

"Prepayment" means any payment made by the County pursuant to the Lease as a prepayment of Lease Payments.

"Prepayment Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Principal Office or Corporate Trust Office" means the corporate trust office of the Trustee at 550 Kearny Street, Suite 600, San Francisco, California 94108-2527, Attention: Corporate Trust; or such other or additional offices as may be designated by the Trustee.

"Project" has the meaning given to the term "Project" in the respective Lease.

"Project Cost Requisition" means a written requisition substantially in the form attached to the Trust Agreement.

"Project Costs" means, with respect to any item or portion of the Project, the contract price paid or to be paid therefor upon acquisition, construction, procurement or improvement thereof, in accordance with a purchase order or contract therefor. Project Costs include, but are not limited to, the administrative, engineering, legal, financial and other costs incurred by the County and the Authority in connection with the acquisition, construction, procurement, remodeling or improvement of the Project, all applicable sales taxes and other charges resulting from such construction, procurement, remodeling or improvement of the Project and the costs associated with making rebate calculations required by the Code. Project Costs shall not include any costs of the County or the Authority to enforce remedies under the Trust Agreement or under the Lease.

"Property" means the site described in each Lease being leased to the County by the Authority under the terms of such Lease.

"Record Date" means the close of business on the fifteenth day of the month preceding each Interest Payment Date, whether or not such fifteenth day is a Business Day.

"Reserve Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Reserve Requirement" means, as of any calculation date, for each series of Certificates, the least of (1) the maximum aggregate annual Lease Payments (in any Certificate Year) then payable under the related Lease (exclusive of Lease Payments attributable to Certificates that have been defeased), (2) 125% of the average annual aggregate Lease Payments (in any Certificate Year) then payable under the related Lease (exclusive of Lease Payments attributable to Certificates that have been defeased), or (3) 10% of the face amount of the Certificates and/or the Additional Certificates, as applicable (less original issue discount if in excess of two percent of the stated prepayment amount at maturity).

"S&P" means Standard & Poor's Ratings Services or any successors or assigns thereto.

"Site Lease" means each Site Lease related to the Certificates, dated the date of each Trust Agreement, by and between the Authority and the County.

"Special Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation, or any other attorney or firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt status of interest on obligations issued by states and their political subdivisions and acceptable to the County.

"State" means the State of California.

"Tax Certificate" means the Tax Certificate, dated as of the Closing Date, concerning matters pertaining to the use and investment of proceeds of the Certificates executed and delivered to the County on the date of execution and delivery of the Certificates, including any and all exhibits attached thereto.

"Term" means the time during which the Lease is in effect, as provided in the Lease.

"Trustee" means BNY Western Trust Company, a banking corporation duly organized and existing under and by virtue of the laws of the State of California, and any successor trustee.

"Trust Agreement" means, with respect to the Series 2004A Certificates, the Series 2004A Trust Agreement, and, with respect to the Series 2004B Certificates, the Series 2004B Trust Agreement, together with any amendments thereof or supplements thereto permitted to be made under the respective Trust Agreement.

THE CERTIFICATES OF PARTICIPATION

Transfer and Exchange

Transfer of Certificates. Any Certificate may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the provisions of the Trust Agreement by the person in whose name it is registered, in person or by his duly authorized attorney, upon surrender of such Certificate for cancellation at the Principal Office accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever any Certificate or Certificates will be surrendered for transfer, the Trustee will execute and deliver a new Certificate or Certificates of the same tenor and maturity, for like aggregate principal amount in authorized denominations. The Trustee may require the payment by the Certificate Owner requesting such transfer of any tax or other governmental change required to be paid with respect to such exchange.

Exchange of Certificates. Certificates may be exchanged at the Principal Office for a like aggregate principal amount of Certificates of other authorized denominations of the same tenor and maturity. The Trustee may require the payment by the Certificate Owner requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

Time for Transfer or Exchange. The Trustee will not be obligated to transfer or exchange any Certificate after a Record Date and before the following Interest Payment Date, or during the period in which it is selecting Certificates for prepayment, or after notice of prepayment has been given as provided in the Trust Agreement.

Certificate Register

The Trustee will keep or cause to be kept at its Principal Office sufficient books for the registration and transfer of the Certificates which will, during normal working hours and upon reasonable notice, be open to inspection by the County and the Authority; and, upon presentation for such purpose, the Trustee will, under such reasonable regulations as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Certificates. The County, the Authority and the Trustee will be entitled to treat the registered owner of a Certificate as the absolute owner thereof for all purposes, whether or not a Certificate will be overdue and the County, the Authority and the Trustee will not be affected by any notice to the contrary.

Additional Certificates

Subsequent to the execution and delivery by the Trustee of the Certificates, the Trustee will, upon written request or requests of the County Representative and of the Authority Representative, execute and deliver from time to time one or more series of Additional Certificates pursuant to the Trust Agreement in such aggregate principal amount as may be set forth in such written request or requests, provided that there has been compliance with all of the following conditions, which are conditions precedent to the preparation, execution and delivery of such Additional Certificates:

(a) The parties to the Trust Agreement have executed a supplemental agreement which (i) sets forth the terms and provisions of such Additional Certificates, including the establishment of such funds and accounts, which may be separate and apart from the funds and accounts established under such Trust Agreement for the Certificates, as are necessary or appropriate, and (ii) requires that prior to the delivery of such Additional Certificates the Reserve Requirement with respect to such Additional Certificates is on deposit in the Reserve Fund established under such Trust Agreement or in a reserve fund established under such supplemental agreement;

(b) The scheduled principal and interest payable with respect to such Additional Certificates will be payable only on Interest Payment Dates applicable to the Certificates;

(c) The Lease will have been amended, if necessary, to (i) increase or adjust the Lease Payments due and payable on the Lease Payment Date to an amount sufficient to pay the principal, premium (if any) and interest payable with respect to all Outstanding Certificates, including all Additional Certificates, as and when the same mature or become due and payable (except to the extent such principal, premium and interest may be payable out of moneys then in the Reserve Fund or otherwise on deposit with the Trustee in accordance with the Trust Agreement), (ii) if appropriate, amend the definition of "Property" to include as part of the Property all or any portion of additions, betterments, extensions, improvements or replacements, or such other real or personal property (whether or not located upon the Property as such Property is constituted as of the date of the Trust Agreement), to be financed, acquired or constructed by the preparation, execution and delivery of such Additional Certificates, and (iii) make such other revisions to the Lease as are necessitated by the execution and delivery of such Additional Certificates (provided, however, that such other revisions will not prejudice the rights of the Owners of Outstanding Certificates as granted them under the terms of the Trust Agreement);

(d) There has been delivered to the Trustee a counterpart of the amendments required by the Trust Agreement;

(e) The Trustee has received a certificate of the Authority Representative that there exists on the part of the Authority no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) under the Trust Agreement;

(f) The Trustee has received a certificate of the County Representative that (i) there exists on the part of the County no Event of Default (or any event which, once all notice or grace periods have passed, would constitute an Event of Default) under the Trust Agreement and (ii) the Lease Payments as increased or adjusted do not exceed in any year the fair rental value of the Property;

(g) The Trustee has received an opinion of Special Counsel substantially to the effect that (i) said supplemental agreement and said amendments to the Lease comply in all respects with the requirements of the Trust Agreement, (ii) said supplemental agreement and said amendments to the Lease have been duly authorized, executed and delivered by each of the respective parties thereto (provided that said opinion of Special Counsel, in rendering the opinions set forth in this clause (ii), will be entitled to rely upon one or more other opinions of counsel, including counsel to any of the respective parties to said supplemental agreement or said amendments to the Lease), (iii) assuming that no Event of Default has occurred and is continuing, the Trust Agreement, as amended by said supplemental agreement, and the Lease, as amended by the respective amendments thereto, constitute the legal, valid and binding obligations of the respective parties thereto, enforceable against said parties in accordance with their respective terms (except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, moratorium, debt adjustment or other laws affecting creditors' rights generally, and except to the extent that enforcement thereof may be limited by general principles of equity, regardless of whether enforcement is sought in a legal or equitable proceeding) and (iv) the execution of such supplemental agreement and said amendments to the Lease, and performance by the parties under the Trust Agreement, will not result in the inclusion of the interest portion of any Lease Payments payable with respect to any Certificates, including Additional Certificates, theretofore prepared, executed and delivered, in the gross income of the Owners of the Certificates for purposes of federal income taxation;

(h) The County will have provided the Insurer written notice of the proposed execution and delivery of such Additional Certificates at the addresses indicated in the Trust Agreement and will have received prior written consent of the Insurer with respect to such Additional Certificates; provided that any Additional Certificates being delivered to refund any outstanding Certificates will not require the prior written consent of the Insurer if the aggregate maximum annual debt service with respect to the Certificates and the Additional Certificates during any remaining year that the Certificates will be outstanding does not exceed maximum annual debt service with respect to the Certificates prior to such refunding.

(i) There will have been delivered to the Trustee an endorsement to or reissuance of the title insurance policy delivered under the Lease providing that the insured amount is at least equal to the aggregate principal amount of all of the Certificates and Additional Certificates outstanding upon the execution and delivery of such Additional Certificates;

(j) Upon the execution and delivery of such Additional Certificates, the amount on deposit in the Reserve Fund will be equal to the Reserve Requirement, taking into account the execution of the Additional Certificates; and

(k) Such other conditions will have been satisfied, and such other instruments will have been duly executed and delivered to the Trustee (with a copy to the Insurer), as the County or the Authority will have reasonably requested.

Upon delivery to the Trustee of the foregoing instruments, the Trustee will cause to be executed and delivered Additional Certificates representing the aggregate principal amount specified in such supplemental agreement, and such Additional Certificates will be equally and ratably secured with all Certificates, including any Additional Certificates, theretofore prepared, executed and delivered under the Trust Agreement, all without preference, priority or distinction (other than with respect to maturity, payment, prepayment or sinking fund payment (if any)) of any one Certificate, including Additional Certificates, over any other; provided, however, that no provision of the Trust Agreements will require the County to consent to or otherwise permit the preparation, execution and delivery of Additional Certificates, it being understood and agreed that any such consent or other action of the County to permit the preparation, execution and delivery of Additional Certificates, or lack thereof, will be in the sole discretion of the County.

COSTS OF ISSUANCE FUND

The Trustee will establish, maintain and hold in trust a separate fund designated as the "Costs of Issuance Fund". The moneys in the Costs of Issuance Fund shall be used and withdrawn by the Trustee to pay the Costs of Issuance upon submission of a Costs of Issuance Requisition from a County Representative stating the person to whom payment is to be made, the amount to be paid, the purpose for which the obligation was incurred and that such payment is a proper charge against said fund. On the second Business Day preceding September 1, 2004, or upon the earlier written request of a County Representative, all amounts remaining in the Costs of Issuance Fund shall be transferred by the Trustee to the Escrow Fund or, at the request of the County, to the Construction Fund.

CONSTRUCTION FUND

The Trustee will establish and maintain a separate fund to be known as the "Construction Fund." The Trustee will maintain the Construction Fund until the Project has been acquired and constructed by the County, or until all amounts therein are expended towards such acquisition and construction, the remaining proceeds of sale of the Certificates. All remaining money in the Construction Fund will be applied by the Trustee for the costs of the acquisition and construction of the Project and the incidental costs and expenses related thereto (including reimbursement to the County for any such costs or expenses paid by it). The Trustee will disburse moneys from the Construction Fund to pay Project Costs or to reimburse the County for payment of such Project Costs upon receipt by the Trustee of a Project Cost Requisition signed by the County Representative. The Trustee will be absolutely protected in making any disbursement from the Project Fund in reliance upon a Project Cost Requisition signed by the County Representative.

In connection with the foregoing, the Trustee will have the right to establish convenience accounts within the various funds established under the Trust Agreement which can be established and closed at the discretion of the Trustee.

When the acquisition and construction of the Project has been completed, the County will direct the Trustee to transfer any remaining balance of money in the Construction Fund to the Reserve Fund, to the extent money is needed therein for the balance therein to equal the Reserve Requirement, and any then remaining balance the Trustee will deposit in the Lease Payment Fund, unless the County provides an opinion of Special Counsel to the effect that another use of such moneys will not cause the interest represented by the Certificates to be included in the gross income of the Owners thereof for federal income tax purposes, in which case, such money may be expended by the County as provided in such opinion.

Notwithstanding the foregoing, in the event of a default in the payment of any Lease Payment and there are no other available funds held under the Trust Agreement, the Trustee will pay from the remaining funds in the Construction Fund any principal and/or interest due on the Certificates.

PREPAYMENT FUND

Establishment of Prepayment Fund

The Trustee will establish a special fund in the Trust Agreement designated as the "County of Stanislaus (2004 Capital Improvement Projects) Prepayment Fund," referred to in the Trust Agreement as the "Prepayment Fund"; will keep such fund separate and apart from all other funds and moneys held by it; and will administer such fund as provided in the Trust Agreement. Moneys to be used for prepayment of the Certificates will be deposited into the Prepayment Fund and used solely for the purpose of prepaying the Certificates in advance of their maturity on the date designated for prepayment and upon presentation and surrender of such Certificates to the Trustee.

Surplus

Any funds remaining in the Prepayment Fund after prepayment and payment of all Certificates Outstanding, including accrued interest and payment of any applicable fees and expenses to the Trustee pursuant to the Trust Agreement and any other Additional Payments payable under the Lease or provision made therefor satisfactory to the Trustee, and provision for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will be withdrawn by the Trustee and remitted to the County.

LEASE PAYMENTS; LEASE PAYMENT FUND

Assignment of Rights in Lease

The Authority has, pursuant to the Assignment Agreement, assigned and set over to the Trustee certain of its rights in the Lease, including but not limited to all of the Authority's rights to receive and collect all of the Lease Payments, the Prepayments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease or pursuant to the Trust Agreement. All Lease Payments, Prepayments and such other amounts to which the Authority may at any time be entitled (other than Additional Payments due to the Authority under the Lease) are to be paid directly to the Trustee, and all of the Lease Payments and Prepayments collected or received by the Authority are to be deemed to be held and to have been collected or received by the Authority as the agent of the Trustee and if received by the Authority at any time are to be deposited by the Authority with the Trustee within five (5) Business Days after the receipt thereof, and all such Lease Payments are to be deposited by the Trustee upon the receipt thereof in the Lease Payment Fund, all such Prepayments are to be deposited by the Trustee upon the receipt thereof in the Prepayment Fund. If the County fails to deposit with the Trustee a Lease Payment on the applicable Lease Payment Date, the Trustee shall, within three Insurance Business Days after such Lease Payment Date, notify the Insurer of such failure. The Insurance Policy will be held by the Trustee and will be deemed to be held in the Lease Payment Fund.

Security Interest in Moneys and Funds

The Authority and the County, as their interests may appear, grant to the Trustee for the benefit of the Owners a lien on and a security interest in all moneys in the funds held by the Trustee under the Trust Agreement (excepting only the Rebate Fund and any moneys to be deposited into the Rebate Fund), including without limitation, the Lease Payment Fund, the Reserve Fund, the Prepayment Fund, the Construction Fund and the Net Proceeds Fund, and all such moneys are to be held by the Trustee in trust and applied to the purposes specified in the Trust Agreement and in the Lease.

Pledge of Lease Payments and Proceeds

The Lease Payments and any proceeds from the re-letting or any other disposition of the Property pursuant to the Lease (the "Lease Proceeds") are irrevocably pledged to and will be used for the punctual payment of the interest and principal represented by the Certificates and the Lease Payments and Lease Proceeds will not be used for any other purpose while any of the Certificates remain Outstanding. This pledge will constitute a first lien on the Lease Payments and Lease Proceeds in accordance with the terms of the Lease, subject to the Trust Agreement.

Establishment of Lease Payment Fund

The Trustee will establish a special fund designated as the "County of Stanislaus (2004 Capital Improvement Projects) Lease Payment Fund." All moneys at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates. So long as any Certificates are Outstanding, neither the County nor the Authority will have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as provided in the Trust Agreement.

Deposits

There will be deposited in the Lease Payment Fund all Lease Payments and in the Prepayment Fund all Prepayments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Trust Agreement and the Lease, and any other moneys required to be deposited therein pursuant to the Lease, including without limitation that section of the Lease regarding proceeds of rental interruption insurance or pursuant to the Trust Agreement, which moneys will be applied as a credit towards any Lease Payment then due.

Application of Moneys

Except as provided in the Trust Agreement, all amounts in the Lease Payment Fund will be used and withdrawn by the Trustee solely for the purpose of paying the principal and interest with respect to the Certificates as the same will become due and payable, in accordance with the provisions of the Trust Agreement, subject to the requirement that certain investment earnings may be transferred to the Rebate Fund, as provided in the Trust Agreement.

On or before each Interest Payment Date, the Trustee will set aside an amount sufficient to pay the interest becoming due and payable on such Interest Payment Date on all Outstanding Certificates. Moneys so set aside will be used and withdrawn by the Trustee solely for the purpose of paying the interest on the Certificates as it will become due and payable (including, accrued interest on any Certificates prepaid prior to maturity).

On or before each Interest Payment Date on which the principal of the Certificates will be payable, the Trustee will set aside an amount equal to (i) the principal amount of the Certificates coming due and payable on such Interest Payment Date pursuant to the Trust Agreement, (ii) the prepayment price of the Certificates (consisting of the principal amount thereof and any applicable premiums) required to be prepaid on such Interest Payment Date pursuant to any of the provisions of the Trust Agreement. Moneys so set aside will be used and withdrawn by the Trustee solely for the purpose of (i) paying the principal of the serial Certificates at the maturity thereof, or (ii) paying the principal of and premium (if any) on any Certificates upon the prepayment thereof pursuant to the Trust Agreement.

Surplus

Any funds remaining in the Lease Payment Fund after payment of all Certificates Outstanding, including accrued interest and payment of any applicable fees to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease, or provision made therefor satisfactory to the Trustee, and provision for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will be withdrawn by the Trustee and remitted to the County.

RESERVE FUND

Establishment of Reserve Fund

The Trustee will establish a special fund designated as the "County of Stanislaus (2004 Capital Improvement Projects) Reserve Fund," referred to in the Trust Agreement as the "Reserve Fund." All moneys at any time on deposit in the Reserve Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates, as a reserve for the payment when due of all the Lease Payments to be paid pursuant to the Lease and of all payments on the Certificates and applied solely as provided in the Trust Agreement.

Certain Net Proceeds

Net Proceeds of rental interruption insurance will be deposited first to the Reserve Fund to make up any deficiencies therein and second to the Lease Payment Fund to be credited to the payment of the Lease Payments in the order in which they become due.

Transfers of Excess

The Trustee will, on or before February 15 and August 15 of each year, provide written notice to the County of any moneys which will be on hand in the Reserve Fund (including investment earnings) in excess of the Reserve Requirement on the next succeeding March 1 or September 1, as the case may be, and one Business Day immediately preceding any Lease Payment Date, the Trustee will transfer such excess moneys to the Lease Payment Fund to be applied to the Lease Payment then due from the County. In the event of the partial Prepayment of Lease Payments the County may instruct the Trustee to reduce the amounts on deposit in the Reserve Fund to the Reserve Requirement as of such date and may direct the Trustee to transfer excess amounts from the Reserve Fund for any lawful purpose.

The transfers described above are in each case subject to the requirement that if the Certificate proceeds will have become subject to the arbitrage rebate provisions of the Code as described in the Trust Agreement then certain investment earnings are to be transferred to the Rebate Fund at the direction of the County as provided in the Trust Agreement.

Application of Reserve Fund in Event of Deficiency in Lease Payment Fund

Whether or not Lease Payments are then in abatement, if one (1) day immediately preceding any Interest Payment Date, the moneys available in the Lease Payment Fund do not equal the amount of the principal, and interest with respect to the Certificates then coming due and payable, the Trustee first will apply the moneys available in the Reserve Fund to make delinquent Lease Payments on behalf of the County by transferring the amount necessary for such purpose to the Lease Payment Fund. The Trustee will take whatever action is necessary to liquidate or draw upon investments of funds held in the Reserve Fund or draw upon any surety bond, insurance policy or letter of credit securing the Reserve Fund to make such funds available for application as provided under the Trust Agreement on the Interest Payment Date.

Transfer to Make All Lease Payments

If on any Interest Payment Date the moneys on deposit in the Reserve Fund and the Lease Payment Fund (excluding amounts required for payment of principal or interest with respect to

Certificates not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal, interest and prepayment premiums (if any), the Trustee will, upon the written direction of the County Representative, transfer all amounts in the Reserve Fund to the Lease Payment Fund to be applied to the payment of the Lease Payments or Prepayments on behalf of the County and such moneys will be distributed to the Owners of Certificates in accordance with the Trust Agreement. Any amounts remaining in the Reserve Fund upon payment in full of all Outstanding Certificates and the Trustee's fees and expenses pursuant to the Trust Agreement and any other Additional Payments due under the Lease, or upon provision for such payments as provided in the Trust Agreement and provisions for any amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, will at the written direction of the County be withdrawn by the Trustee and paid to the County.

NET PROCEEDS FUND

Establishment of Net Proceeds Fund: Deposits

The Trustee will establish when required a special fund designated as the "County of Stanislaus (2004 Capital Improvement Projects) Net Proceeds Fund," referred to in the Trust Agreement as the "Net Proceeds Fund," to be maintained and held in trust for the benefit of the Owners, subject to disbursement therefrom as provided in the Trust Agreement. The Trustee will deposit Net Proceeds in the Net Proceeds Fund as provided in the Lease.

Casualty Insurance. The Trustee will disburse Net Proceeds for replacement or repair of the Property as provided in the Lease, or transfer such proceeds to the Prepayment Fund upon notification of the County Representative as provided in the Lease. Pending such application, such Net Proceeds may be invested by the Trustee as directed by the County in Permitted Investments that mature not later than such times moneys are expected to be needed to pay such costs of repair or replacement. After all of the Certificates have been paid and the entire amount of principal and interest with respect to the Certificates has been paid in full, or provision made for payment satisfactory to the Trustee, including provision for all amounts required to be transferred to the Rebate Fund pursuant to the Trust Agreement, the Trustee will pay any remaining moneys in the Net Proceeds Fund to the County after payment of any amounts due to the Trustee pursuant to the Trust Agreement and any other Additional Payments due under the Lease.

Title Insurance. Proceeds of any policy of title insurance received by the Trustee with respect to the Property will be applied and disbursed by the Trustee upon the Written Request of the County as follows:

(a) If the County determines that the title defect giving rise to such proceeds has not substantially interfered with its use and occupancy of the Property and will not result in an abatement of Lease Payments and Additional Payments payable by the County under the Lease (such determination to be certified by the County in writing), such proceeds will, with the written approval of the Insurer, be remitted to the County and used for any lawful purpose thereof; or

(b) If the County determines that the title defect giving rise to such proceeds has substantially interfered with its use and occupancy of the Property and will result in an abatement of Lease Payments and Additional Payments payable by the County under the Lease; then the Trustee will, with the written approval of the Insurer, immediately deposit such proceeds in the Prepayment Fund and such proceeds will be applied to the prepayment of Certificates in the manner provided in the Trust Agreement.

MONEYS IN FUNDS; INVESTMENT

Held in Trust

The moneys and investments held by the Trustee under the Trust Agreement, other than in the Rebate Fund, are irrevocably held in trust for the benefit of the Owners and, in the case of the Rebate Fund, for payment as required to the United States Treasury, and for the purposes in the Trust Agreement, and such moneys, and any income or interest earned thereon, will be expended only as provided in the Trust Agreement, and will not be subject to levy or attachment or lien by or for the benefit of any creditor of the Authority, the Trustee or the County, or any of them.

Investments Authorized

By Trustee. Subject to the further provisions of the Trust Agreement, moneys held by the Trustee under the Trust Agreement will be invested and reinvested on maturity thereof by the Trustee pursuant to the Trust Agreement. The Trustee will report any such investments to the County on a monthly basis in its regular statements.

Upon Direction of County. The County Representative will direct by facsimile, to the designated trust officer responsible for the administration of the Trust Agreement, followed by oral notification and distribution by U.S. Mail or overnight courier service of such notice, such investment in specific Permitted Investments not less than two Business Days prior to the date that such Permitted Investment is to take effect. Such investments and reinvestments will be made giving full consideration for the time at which funds are required to be available based upon, among other things, scheduled completion of the various components of the Project. In the event that the County Representative does not so direct the Trustee, the Trustee will invest in the Permitted Investments described in paragraph 2(e) of the definition thereof.

Investments purchased with funds on deposit in the Lease Payment Fund and Prepayment Fund are to mature not later than the Interest Payment Date or prepayment date, as appropriate, immediately succeeding the investment. Notwithstanding anything to the contrary contained in the Trust Agreement, investments purchased with funds on deposit in the Reserve Fund shall have an average aggregate weighted term to maturity of not greater than five years; provided that such amounts may be invested in an investment agreement to the later of the final maturity of the Certificates or any Additional Certificates so long as such amounts may be withdrawn at any time, without penalty, for application in accordance with the Trust Agreement; and provided that no such investment of amounts in the Reserve Fund allocable to the Certificates or a series of Additional Certificates shall mature later than the respective final maturity date of the Certificates or the series of Additional Certificates, as applicable.

Registration. Such investments, if registrable, will be registered in the name of the Trustee for the benefit of the Owners and held by the Trustee or its nominee.

Trustee as Purchaser or Agent. The Trustee may purchase or sell to itself or any affiliate, as principal or agent, investments authorized by the Trust Agreement. The Trustee may act as purchaser or agent in the making or disposing of any investment. The Trustee or any of its affiliates may act as a sponsor of, or as an advisor to any provider of, Permitted Investments under the Trust Agreement. The County acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the County the right to receive brokerage confirmations of security transactions as they occur, the County specifically waives receipt of such confirmations to the extent permitted by law. The Trustee will furnish the County periodic cash transaction statements which include detail for all investment transactions made by the Trustee under the Trust Agreement.

Disposition of Investments

Any income, profit or loss on the investment of moneys held by the Trustee under the Trust Agreement will be credited to the respective fund for which it is held, except as otherwise provided in the Trust Agreement.

Accounting

The Trustee will furnish to the County, not less than monthly, an accounting (which may be in the form of its regular statements) of all investments made by the Trustee and all funds and amounts held by the Trustee; provided, that the Trustee will not be obligated to deliver an accounting for any fund or account that (i) has a balance of zero and (ii) has not had any activity since the last reporting date. The Trustee will keep accurate records of all funds administered by it and of all Certificates paid and discharged.

Valuation and Disposition of Investments

Valuation. With respect to all funds and accounts, investments will be valued by the Trustee (i) as frequently as deemed necessary by the Insurer but not less often than annually nor more often than monthly, and (ii) upon any draw upon the Reserve Fund. In making any such valuations, the Trustee may utilize, and conclusively rely upon such valuation services as may be available to the Trustee, including those within its regular accounting system.

Disposition. Subject to the provisions of the Trust Agreement, the Trustee will sell, or present for prepayment, any Permitted Investment so purchased by the Trustee whenever it will be necessary in order to provide moneys to meet any required payment, transfer, withdrawal or disbursement from the fund to which such Permitted Investment is credited.

Commingling of Moneys in Funds

The Trustee may, and upon the written request of the County Representative will, commingle any of the funds held by it pursuant to the Trust Agreement into a separate fund or funds for investment purposes only; provided, however, that all funds or accounts held by the Trustee under the Trust Agreement will be accounted for separately notwithstanding such commingling by the Trustee.

Tax Covenants

General. The County and the Authority have covenanted with the holders of the Certificates that, notwithstanding any other provisions of the Trust Agreement, they will not take any action, or fail to take any action, if any such action or failure to take action would adversely affect the exclusion from gross income of interest due with the Certificates under the Code. The County and the Authority (to the extent that the Authority may have control over the proceeds of the Certificates) will not, directly or indirectly, use or permit the use of proceeds of the Certificates, or any portion thereof, by any person other than a governmental unit (as such term is used in the Code), in such manner or to such extent as would result in the loss of exclusion from gross income for federal income tax purposes of interest due with respect to the Certificates.

Use of Proceeds. The County and the Authority (to the extent that the Authority may have control over the proceeds of the Certificates) will not take any action, or fail to take any action, if any such action or failure to take action would cause the Certificates to be "private activity bonds" within the meaning of the Code, and in furtherance thereof, will not make any use of the proceeds of the Certificates, or any portion thereof, or any other funds of the County, that would cause the Certificates to be "private activity bonds" within the meaning of the Code. To that end, so long as any Certificates are outstanding, the County and the Authority, with respect to such proceeds and such other funds, will comply with applicable requirements of the Code and all regulations of the United States Department of the Treasury issued under the Code, to the extent such requirements are, at the time, applicable and in effect. The County will establish reasonable procedures necessary to ensure continued compliance with the Code and the continued qualification of the Series 2004A Certificates as "501(c)(3) bonds" and the Series 2004B Certificates as governmental bonds."

Arbitrage. The County and the Authority (to the extent that the Authority may have control over the Project or the proceeds of the Certificates) will not, directly or indirectly, use or permit the use of any proceeds of any Certificates, or of the Project, or other funds of the County, or take or omit to take any action, that would cause the Certificates to be "arbitrage bonds" within the meaning of the Code. To that end, the County and the Authority will comply with all requirements of the Code and all regulations of the United States Department of the Treasury issued under the Code to the extent such requirements are, at the time, in effect and applicable to the Certificates.

Federal Guarantee. The County and the Authority (to the extent that the Authority may have control over the proceeds of the Certificates) will not make any use of the proceeds of the Certificates or any other funds of the County, or take or omit to take any other action, that would cause the Certificates to be "federally guaranteed" within the meaning of the Code.

Compliance with Tax Certificate. In furtherance of the foregoing tax covenants of the Trust Agreement, the County covenants that it will comply with the provisions of the Tax Certificate, which is incorporated in the Trust Agreement as if fully set forth in the Trust Agreement. These covenants will survive payment in full or defeasance of the Certificates.

Rebate Fund

The Trustee will establish a special fund designated the "County of Stanislaus (2004 Capital Improvement Projects) Series 2004A Rebate Fund" (the "2004A Rebate Fund") and the County of Stanislaus (2004 Capital Improvement Projects) Series 2004B Rebate Fund (the "2004B Rebate Fund" and together with the Series 2004A Rebate Fund, the "Rebate Fund"). All amounts at any time on deposit in the Rebate Fund will be held by the Trustee in trust, to the extent required to satisfy the requirement to make rebate payments to the United States (the "Rebate Requirement") pursuant to the Code and the Treasury Regulations promulgated thereunder (the "Treasury Regulations"). Such amounts will be free and clear of any lien under the Trust Agreement and will be governed by the Trust Agreement and by the Tax Certificate.

THE TRUSTEE

Appointment of Trustee

Appointment. BNY Western Trust Company, a banking corporation duly organized and existing under the laws of the State of California, has been appointed Trustee by the Authority and the County.

Qualifications. The Authority and the County agree that they will maintain a Trustee having a corporate trust office in New York, New York, San Francisco, California or Los Angeles, California capable of exercising trust powers in the State of California, with a reported capital surplus of at least $75,000,000, or be a member of a bank holding company system, which will have a combined capital and surplus of at least $75,000,000, and subject to supervision or examination by federal or state authority, so long as any Certificates are Outstanding.

Removal. The Insurer and, so long as there is no Event of Default, the County, may remove the Trustee initially appointed, and any successor thereto, and may appoint a successor or successors thereto.

Resignation. The Trustee may, upon prior written notice to the County, the Insurer and the Authority, resign; provided that such resignation will not take effect until the successor Trustee is appointed as provided in the Trust Agreement. Upon receiving such notice of resignation, the County will promptly appoint a successor Trustee subject to written approval of the Insurer.

Successor. Any successor Trustee will be a bank or trust company meeting the qualifications as set forth above. Any resignation or removal of the Trustee and appointment of a successor Trustee will become effective upon acceptance of appointment by the successor Trustee and upon receipt of written approval of the Insurer. Upon such acceptance, the successor Trustee will mail notice thereof to the Owners at their respective addresses set forth on the Certificate registration books.

Rights of the Trustee

Ownership of Certificates. The Trustee may become the Owner with the same rights it would have if it were not Trustee; may acquire and dispose of other bonds or evidence of indebtedness of the County with the same rights it would have if it were not the Trustee; and may act as a depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Owners, whether or not such committee shall represent the Owners of the majority in principal amount of the Certificates then Outstanding.

Attorneys, Agents, Receivers. The Trustee may execute any of the trusts or powers and perform the duties required of it under the Trust Agreement by or through attorneys, agents, or receivers, shall not be responsible for the actions or omissions of such attorneys, agents or receivers if appointed by it with reasonable care, and shall be entitled to advice of counsel concerning all matters of trust and its duty under the Trust Agreement.

Standard of Care. So long as there is no Event of Default, (a) the Trustee shall not be liable in connection with the performance of its duties under the Trust Agreement, except for its own negligence or willful misconduct, and (b) the Trustee will only perform those duties specifically set forth in the Trust Agreement and no implied duties, covenants or obligations whatsoever shall be read into the Trust Agreement. In the event of and during the continuance of an Event of Default, the Trustee will exercise such care in performing its duties under the Trust Agreement as a corporate trustee would exercise in such event.

Indemnification of Trustee. The County will, to the extent permitted by law, indemnify and save the Trustee and its officers, directors, agents, and employees harmless from and against (whether or not litigated) all claims, losses, costs, expenses, liability and damages, including legal fees and expenses, arising out of (i) the use, maintenance, condition or management of, or from any work or thing done on, the Property by the County, (ii) any breach or default on the part of the County in the performance of any of its obligations under the Trust Agreement and any other agreement made and entered into for purposes of the Property, (iii) any act of negligence of the County or of any of its agents, contractors, servants, employees or licensees with respect to the Property, (iv) any act of negligence of any assignee of, or purchaser from, the County or of any of its or their agents, contractors, servants, employees or licensees with respect to the Property, or (v) the exercise and performance by the Trustee of its powers and duties under the Trust Agreement or any related document, (vi) the sale of the Certificates and the carrying out of any of the transactions contemplated by the Certificates or the Trust Agreement, or (vii) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made in light of the circumstances in which they were made, not misleading in any official statement or other disclosure document utilized in connection with the sale of the Certificates. No indemnification will be made in the Trust Agreement or other agreements for willful misconduct or negligence by the Trustee, its officers, agents, employees, successors or assigns.

In accepting the trust created by the Trust Agreement, the Trustee acts solely as Trustee for the Owners and not in its individual capacity, and all persons, including, without limitation, the Owners, Authority and County, having any claim against the Trustee arising from the Trust Agreement will look only to the funds and accounts held by the Trustee under the Trust Agreement for payment, except as otherwise provided in the Trust Agreement or where the Trustee has breached its standard of care as described in the Trust Agreement. Under no circumstances will the Trustee be liable in its individual capacity for the obligations evidenced by the Certificates.

No provision of the Trust Agreement will require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties under the Trust Agreement or in the exercise of any of its rights or powers.

The Trustee will not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Owners of not less than a majority in aggregate principal amount of the Certificates at the time Outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee or in the exercise of any right under the Trust Agreement.

The Trustee will have no responsibility with respect to any information, statement or recital in any official statement, offering memorandum or any other disclosure material prepared or distributed with respect to the Certificates.

The Trustee will not to be deemed to have knowledge of any Event of Default under the Trust Agreement or under the Lease unless it has actual knowledge thereof at its Principal Office.

MODIFICATION OR AMENDMENT OF AGREEMENTS

Amendments Permitted

With Consent. The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time, with notice to any rating agency then rating the Certificates, by a supplemental agreement or amendment thereto which will become effective when the written consents of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) and Owners of a majority in aggregate principal amount of the Certificates then Outstanding, exclusive of Certificates disqualified as provided in the Trust Agreement, will have been filed with the Trustee. No such modification or amendment will:

> (a) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, or diminish the security afforded by the Insurance Policy without the express consent of the Owner of such Certificate and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy), or
>
> (b) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease, or
>
> (c) modify any of the rights or obligations of the Trustee without its written assent thereto, or
>
> (d) amend Trust Agreement dealing with permitted amendments without the prior written consent of the Owners of all Certificates related to such Trust Agreement then outstanding and the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy).

Without Consent. The Trust Agreement and the rights and obligations of the Owners, and the Lease and the rights and obligations of the parties thereto, may be modified or amended at any time by a supplemental agreement or amendments thereto, with the prior written consent of the Insurer (so long as the Insurer is not in default in its payment obligations under the Insurance Policy) without the consent of any such Owners, but only to the extent permitted by law and only:

> (a) to add to the covenants and agreements of the County under the Trust Agreement,
>
> (b) to cure, correct or supplement any ambiguous or defective provision contained in the Trust Agreement or in the Lease,
>
> (c) in regard to matters arising under the Trust Agreement or under the Lease Agreement, as the parties thereto may deem necessary or desirable, will not adversely affect the interest of the Owners or the Insurer,
>
> (d) to substitute the Property, or a portion thereof, in accordance with the Lease,

(e) to make such additions, deletions or modifications as may be necessary or appropriate to assure the exclusion from gross income for federal income tax purposes of the interest component of Lease Payments and the interest payable with respect to the Certificates,

(f) to add to the rights of the Trustee,

(g) to provide for the execution and delivery of Additional Certificates in accordance with the provisions of the Trust Agreement.

Any such supplemental agreement will become effective upon execution and delivery by the parties thereto.

Procedure for Amendment with Written Consent of the Owners

The Trust Agreement or the Lease may be amended by supplemental agreement as provided in the Trust Agreement. In the event the consent of the Owners is required pursuant to the Trust Agreement, a copy of such supplemental agreement, together with a request to the Owners for their consent thereto, will be mailed by the Trustee to each Owner of a Certificate at his address as set forth in the Certificate registration books, but failure to receive copies of such supplemental agreement and request so mailed will not affect the validity of the supplemental agreement when assented to as provided in the Trust Agreement.

Such supplemental agreement will not become effective unless there will be filed with the Trustee the written consent of the Owners of at least a majority in aggregate principal amount of the Certificates then Outstanding (exclusive of Certificates disqualified as provided in the Trust Agreement) and notices will have been mailed as provided the Trust Agreement. Any such consent will be binding upon the Owner of the Certificate giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof) unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when further notice has been mailed as provided in the Trust Agreement.

Effect of Supplemental Agreement

From and after the time any supplemental agreement becomes effective pursuant to the Trust Agreement, the Trust Agreement or the Lease, as the case may be, will be deemed to be modified and amended in accordance therewith, the respective rights, duties and obligations of the parties thereto and all Owners of Certificates Outstanding, as the case may be, will thereafter be determined, exercised and enforced under the Trust Agreement subject in all respects to such modification and amendment, and all the terms and conditions of any supplemental agreement will be deemed to be part of the terms and conditions of the Trust Agreement or the Lease, as the case may be, for any and all purposes.

COVENANTS

Compliance With and Enforcement of Lease

The County has covenanted to perform all obligations and duties imposed on it under the Lease. The Authority has covenanted to perform all obligations and duties imposed on it under the Lease. The County will not do or permit anything to be done, or omit or refrain from doing anything, in any case where any such act done or permitted to be done, or any such omission of or refraining from action, would or might be a ground for cancellation or termination of the Lease by the Authority.

Observance of Laws and Regulations

The County will observe and perform all valid and lawful obligations or regulations imposed on it by contract, or prescribed by any law of the United States, or of the State, or by any officer, board or commission having jurisdiction or control, as a condition of the continued enjoyment of any and every right, privilege or franchise owned or acquired by the County, including its right to exist and carry on business as a municipal corporation, to the end that such rights, privileges and franchises will be maintained and preserved, and will not become abandoned, forfeited or in any manner impaired.

Prosecution and Defense of Suits

The County will promptly, and also upon request of the Trustee, the Insurer or any Owner, from time to time take such action as may be necessary or proper to remedy or cure any defect in or cloud upon the title to the Property, and will prosecute all such suits, actions and other proceedings as may be appropriate for such purpose.

County Budgets

In accordance with the Lease, the County Representative will certify to the Trustee on or before September 1 of each year that the County has included all Lease Payments (other than Lease Payments of advance rental) and Additional Payments due under the Lease in the Fiscal Year covered by its annual budget and the amount so included. If the County fails to certify that it has included all such Lease Payments and Additional Payments in such annual budget, the Trustee will promptly provide the County written notice specifying that the County has failed to observe and perform its covenant and agreement in the Lease and requesting that such failure be remedied within 30 days, or such failure will constitute an Event of Default under the Lease.

LIMITATION OF LIABILITY

Limited Liability of the County

Except for the payment of Lease Payments, Additional Payments and Prepayments when due in accordance with the Lease and the performance of the other covenants and agreements of the County contained in the Trust Agreement and in the Lease, the County will have no obligation or liability to any of the other parties to the Trust Agreement or to the Owners with respect to the Trust Agreement or the terms, execution, delivery or transfer of the Certificates, or the distribution of Lease Payments to the Owners by the Trustee.

No Liability of the County or Authority for Trustee Performance

Except as expressly provided in the Trust Agreement, neither the County nor the Authority will have any obligation or liability to any other parties thereto or to the Owners with respect to the performance by the Trustee of any duty imposed upon it under the Trust Agreement.

Limitation of Rights to Parties and Certificate Owners

Nothing in the Trust Agreement or in the Certificates expressed or implied is intended or will be construed to give any person other than the County, the Authority, the Trustee and the Owners, any legal or equitable right, remedy or claim under or in respect of the Trust Agreement or any covenant, condition or provision of the Trust Agreement; and all such covenants, conditions and provisions are and will be for the sole and exclusive benefit of the County, the Authority, the Trustee and the Owners.

Except as expressly provided in the Trust Agreement, the Authority shall not have any obligation or liability to the Owners with respect to the payment when due of the Lease Payments by the County or with respect to the observance or performance by the County of the other agreements, conditions, and covenant imposed upon the County by the Lease or by the Trust Agreement.

EVENTS OF DEFAULT AND REMEDIES OF CERTIFICATE OWNERS

Events of Default

Remedies. If an Event of Default occurs, then, and in each and every such case during the continuance of such Event of Default, the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease; provided, however, that notwithstanding anything in the Trust Agreement or in the Lease to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE MATURITIES OF THE CERTIFICATES OR OTHERWISE TO DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE; provided further that so long as the Insurer will not be in default in its payment obligations under the Insurance Policy, the Insurer will control all remedies upon an Event of Default.

Actual Knowledge. The Trustee will not be deemed to have knowledge of any Event of Default unless and until the trust officer responsible for the administration of the Trust Agreement will have actual knowledge thereof, or will have received written notice thereof at the Principal Office.

Application of Funds

All moneys received by the Trustee pursuant to any right given or action taken under the provisions of the Trust Agreement or the Lease, will be deposited into the Lease Payment Fund and be applied by the Trustee after payment of all amounts due and payable to the Trustee pursuant to the Trust Agreement and the Lease in the following order upon presentation of the several Certificates, and the stamping thereon of the payment if only partially paid, or upon the surrender thereof if fully paid -

First, *Costs and Expenses*: to the payment of the costs, fees and expenses of the Trustee in declaring such Event of Default and in performing its duties under the Trust Agreement, including reasonable compensation to its or their agents, attorneys and counsel and then any of such amounts incurred by the Owners;

Second, *Interest*: to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installment, and, if the amount available is not sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference;

Third, *Principal*: to the payment to the persons entitled thereto of the unpaid principal with respect to any Certificates which will have become due, whether at maturity or by call for prepayment, in the order of their due dates, with interest on the overdue principal and interest at a rate equal to the rate paid with respect to the Certificates and, if the amount available will not be sufficient to pay in full all the amounts due with respect to the Certificates on any date, together with such interest, then to the payment thereof ratably, according to the amounts of principal due on such date to the persons entitled thereto, without any discrimination or preference; and

Fourth, *Insurer*: to the extent not included in clauses First, Second or Third above, to the payment of all amounts then due to the Insurer, as certified in writing to the Trustee.

Institution of Legal Proceedings

If one or more Events of Default will happen and be continuing, the Trustee, with the prior written consent of the Insurer, may, and upon the written request of the Owners of a majority in principal amount of the Certificates then Outstanding, and upon being indemnified to its satisfaction therefor, will, proceed to protect or enforce its rights or the rights of the Owners by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Trust Agreement or in the Lease, or in aid of the execution of any power in the Trust Agreement granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee will deem most effectual in support of any of its rights or duties under the Trust Agreement; provided that such written request will not be otherwise than in accordance with provisions of law and the Trust Agreement and that the Trustee will have the right to decline to follow any such written request if the Trustee will be advised by counsel that the action or proceeding so requested may not be taken lawfully or if the Trustee in good faith will determine that the action or proceeding so requested would be unjustly prejudicial to the Certificate Owners not a party to such written request or expose the Trustee to liability.

Non-Waiver

Nothing in the Trust Agreement or in the Certificates will affect or impair the obligation of the County which is absolute and unconditional, to pay or prepay the Lease Payments as provided in the Lease. So long as the Insurer is not in default in its payment obligations under the Insurance Policy, the Trustee will not waive any default or breach of duty or contract under the Trust Agreement without the prior written consent of the Insurer. No delay or omission of the Trustee or of any Owner of any of the Certificates to exercise any right or power arising upon the happening of any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein, and every power and remedy given by the Trust Agreement to the Trustee or to the Owners may be exercised from time to time and as often as will be deemed expedient by the Trustee or the Owners.

Remedies Not Exclusive

No remedy conferred or reserved to the Trustee or to the Owners in the Trust Agreement is intended to be exclusive of any other remedy, and every such remedy will be cumulative and will be in addition to every other remedy given under the Trust Agreement, at law or in equity or by statute or otherwise.

Power of Trustee to Control Proceedings

Subject to the Insurer's right to control all remedies upon an Event of Default, in the event that the Trustee, upon the happening of an Event of Default, will have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Trust Agreement, whether upon its own discretion, upon the request of the Insurer, or upon the request of the Owners of a majority in principal amount of the Certificates then Outstanding, it will have full power, in the exercise of its discretion for the best interest of the Owners of the Certificates, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee will not, unless there no longer continues an Event of Default, discontinue, withdraw, compromise or settle, or otherwise dispose of any litigation pending at law or in equity, if at the time there has been filed with it a written request signed by the Owners of at least a majority in principal amount of the Outstanding Certificates under the Trust Agreement opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Certificate Owners' Right to Sue

No Owner of any Certificate executed under the Trust Agreement will have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner will have previously given to the Trustee written notice of the occurrence of an Event of Default under the Lease; (b) so long as the Insurer is not in default in its payment obligations under the Insurance Policy, such Owner will have obtained the Insurer's consent to such institution or appointment; (c) the Owners of a majority in aggregate principal amount of all the Certificates then Outstanding will have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (d) said Owners will have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; (e) the Trustee will have refused or omitted to comply with such request for a period of 60 days after such written request will have been received by, and said tender of indemnity will have been made to, the Trustee; and (f) there has been a default in the payment of such Owner's proportionate interest in the Lease Payments as the same become due.

Such notification, request, tender of indemnity, refusal or omission, and default are, in every case, to be conditions precedent to the exercise by any Owner of any remedy under the Trust Agreement; it being understood and intended that no one or more Owners will have any right in any manner whatever by his or their action to enforce any right under the Trust Agreement, except in the manner provided in the Trust Agreement and for the equal benefit of all Owners of the Outstanding Certificates.

The right of any Owner of any Certificate to receive payment of said Owner's proportionate interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such payment, will not be impaired or affected without the consent of such Owner, notwithstanding any provision of the Trust Agreement.

MISCELLANEOUS

Defeasance

Methods. If and when any Outstanding Certificates are paid and discharged in any one or more of the following ways:

(i) *Payment or Prepayment*: by well and truly paying or causing to be paid the principal, interest and prepayment premiums (if any) with respect to such Certificates Outstanding, as and when the same become due and payable;

(ii) *Cash*: if prior to maturity and having given at least 30 days prior written notice of prepayment by depositing with the Trustee, in trust, concurrent with the giving of such notice, an amount of cash which (together with cash then on deposit in the Lease Payment Fund and the Reserve Fund together with the interest to accrue thereon, in the event of payment or provision for payment of all Outstanding Certificates) is sufficient to pay such Certificates Outstanding, including all principal and interest and premium, if any; or

(iii) *Government Obligations*: by irrevocably depositing with the Trustee, in trust, Government Obligations together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon (and, in the event of payment or provision for payment of all Outstanding Certificates, moneys then on deposit in the Lease Payment Fund and the Reserve Fund together with the interest to accrue thereon), be fully sufficient to pay and discharge such Certificates (including all principal and interest represented thereby and prepayment premiums if any) at or before their maturity date;

and all other amounts due under the Trust Agreement have been paid in full, then, notwithstanding that any Certificates will not have been surrendered for payment, all obligations of the Authority, the Trustee and the County with respect to such Certificates will cease and terminate, except only the obligation of the County and the Authority to comply with the Code and the obligation of the Trustee to pay or cause to be paid, from Lease Payments paid by or on behalf of the County from funds deposited pursuant to paragraphs (ii) and (iii) above, to the Owners of the Certificates not so surrendered and paid all sums due with respect thereto, and in the event of deposits pursuant to paragraphs (ii) and (iii) above, the Certificates will continue to represent direct and proportionate interests of the Owners thereof in Lease Payments under the Lease.

Surplus Moneys. Any funds held by the Trustee, at the time of payment or provision for payment of all Outstanding Certificates pursuant to the one of the procedures described in the Trust Agreement, which are not required for the payment to be made to Owners, will be paid over to the County, after the payment of any amounts due to the Trustee pursuant to the Trust Agreement, any amounts due and owing to the Insurer, and any other Additional Payments due under the Lease.

Surviving Provisions. The Trustee will retain such rights, powers and privileges under the Trust Agreement as may be necessary or convenient for the payment of the principal, interest and prepayment premium, if any, on the Certificates and for the registration, transfer and exchange of the Certificates.

Opinions and Reports. Prior to any defeasance becoming effective under the Trust Agreement, the County shall cause to be delivered (i) an executed copy of a report, addressed to the Trustee, the County and the Insurer, in form and substance acceptable to the County and the Insurer of a nationally recognized firm of certified public accountants, verifying that the Government Obligations and cash, if any, satisfy the requirements of the Trust Agreement, (ii) a copy of the escrow deposit agreement entered into in connection with such defeasance, which escrow deposit agreement shall be in form and substance acceptable to the Insurer, and (iii) a copy of an Opinion of Counsel, dated the date of such defeasance and addressed to the Trustee, the County and the Insurer, in form and substance acceptable to the County and the Insurer, to the effect that such Certificates are no longer Outstanding under the Trust Agreement.

Non-Presentment of Certificates. In the event any Certificate will not be presented for payment when the principal with respect thereto becomes due, either at maturity, or at the date fixed for prepayment thereof, if moneys sufficient to pay such Certificate will have been deposited in the Prepayment Fund or Lease Payment Fund, as applicable, all liability of the County and the Trustee to the Owner thereof for payment of such Certificate will forthwith cease, terminate and be completely discharged, and thereupon it will be the duty of the Trustee to hold such moneys, without liability for interest thereon, for the benefit of the Owner of such Certificate who will thereafter be restricted exclusively to such moneys, for any claim of whatever nature on his or her part under the Trust Agreement or on, or with respect to, said Certificate.

Any moneys so deposited with and held by the Trustee not so applied to the payment of Certificates within two years after the date on which the same will have become due will be paid by the Trustee to the County, free from the trusts created by the Trust Agreement. Prior to forwarding any such moneys to the County, the Trustee may publish notice of its intention to transfer such funds in The Bond Buyer or another financial newspaper of general circulation in New York, New York. In addition, Trustee will be indemnified from and against any and all liabilities to third parties resulting from its actions under the Trust Agreement. Thereafter, Owners will be entitled to look only to the County for payment, and then only to the extent of the amount so repaid by the Trustee. The County will not be liable for any interest on the sums paid to it pursuant to the defeasance provisions of the Trust Agreement and will not be regarded as a trustee or trustees of such money.

RIGHTS OF THE INSURER

Upon the occurrence and continuance of an Event of Default, the Insurer will be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or the Trustee for the benefit of the Owners under the Trust Agreement.

DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS OF THE LEASE

DEFINITIONS

Unless the context otherwise requires, the terms defined below shall for all purposes below have the meanings defined below, the following definitions to be equally applicable to both the singular and plural forms of any of the terms defined below. All capitalized terms used below and not defined below shall have the meanings ascribed thereto in the Trust Agreement.

"Environmental Regulations" means all Laws and Regulations, with respect to Hazardous Materials, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act, as amended (together with the regulations promulgated thereunder, "CERCLA"), the Resource Conservation and Recovery Act, as amended (together with the regulations promulgated thereunder, "RCRA"), the Emergency Planning and Community Right-to-Know Act, as amended (together with the regulations promulgated thereunder, "Title III"), the Clean Water Act, as amended (together with the regulations promulgated thereunder, "CWA"), the Clean Air Act, as amended (together with the regulations promulgated thereunder, "CAA") and the Toxic Substances Control Act, as amended (together with the regulations promulgated thereunder, "TSCA"), and any state or local similar laws and regulations and any so-called local, state or federal "superfund" or "superlien" law.

"Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the County may, pursuant to provisions of the Lease, permit to remain unpaid; (ii) the Assignment Agreement; (iii) the Lease; (iv) the Site Lease; (v) any contested right or claim of any mechanic, laborer, materialman, supplier or vendor filed or perfected in the manner prescribed by law to the extent permitted under the Lease; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions, liens or restrictions which exist of record as of the Closing Date and which the County certifies will not materially impair the use of the Property by the County; and (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease and to which the Insurer, the Authority, the County and the Trustee consent in writing.

"Property" means the real property described in Exhibit B to the Lease leased to the County by the Authority.

AGREEMENT TO LEASE; TERM OF LEASE; LEASE PAYMENTS

Payment of Costs of Issuance

Payment of the Costs of Issuance will be made from the moneys deposited with the Trustee in the Costs of Issuance Fund as provided in the Lease and the Trust Agreement, which will be disbursed in accordance and upon compliance with the Trust Agreement.

Term

The term of the Lease will commence on the date of execution thereof and will end on September 1, 2025, unless extended pursuant to the Lease, or unless terminated prior thereto upon the earliest of any of the following events:

Default and Termination. A default by the County and the Authority's election to terminate the Lease under the termination provisions of the Lease;

Payment of All Lease Payments. The payment by the County of all Lease Payments and any Additional Payments required under the Lease; or

Prepayment. The deposit of funds or Government Obligations with the Trustee in amounts sufficient to pay all Lease Payments as the same will become due, as provided in the Lease and the Trust Agreement.

Purchase. Upon the exercise by the County of its option to purchase all of the Authority's interest in the Property as provided in the Lease; provided, however, that upon exercise by the County of its option to purchase the Authority's interest in a portion of the Property, as provided in the Lease, the Lease will be terminated only with respect to the portion of the Property purchased.

Extension of Lease Term

The Term of the Lease may be extended up to September 1, 2035 in connection with the execution and delivery of any Additional Certificates. If on the final maturity date of the Certificates or any Additional Certificates all Interest Components and Principal Components represented thereby shall not be fully paid by the County, or if the Lease Payments or Additional Payments under the Lease shall have been abated at any time as permitted by the terms thereof, then the Term shall be extended until all Certificates and Additional Certificates shall be fully paid, except that the Term shall in no event be extended beyond September 1, 2035.

Lease Payments

Time and Amount. Subject to the provisions of the Lease regarding abatement in event of loss of use of any portion of the Property, regarding option to purchase and regarding prepayment of Lease Payments, the County has agreed to pay to the Authority, its successors and assigns, as annual rental for the use and possession of the Property, the Lease Payments (denominated into components of principal and interest, the interest component being paid semiannually) in the amounts specified in Exhibit A to the Lease, to be due and payable in arrears on the 15th day of the month (or if such day is not a Business Day, the next succeeding Business Day) immediately preceding the respective Certificate Payment Dates specified in Exhibit A to the Lease (the "Lease Payment Date") which are sufficient in both time and amount to pay when due the annual principal and interest represented by the Certificates. In the event that any Additional Certificates are executed and delivered pursuant to the Trust Agreement, the County and the Trustee shall execute an amendment to state the Lease Payments due under the Lease as a result of the execution and delivery of such Additional Certificates.

The obligation of the County to pay Lease Payments shall commence on the Closing Date for the Certificates. In the event the County does not pay a Lease Payment due on the respective Lease Payment Date, the Trustee will provide prompt written notice to the County of such failure to pay; provided, however, that failure to give such notice will not excuse any event of default under the Lease.

Credits. Any amount held in the Lease Payment Fund on any Lease Payment Date (other than capitalized interest, which will be credited in accordance with the Trust Agreement, and other than amounts resulting from the prepayment of the Lease Payments in part but not in whole pursuant to the Lease and other amounts required for payment of principal with respect to any Certificates or Additional Certificates that have matured or been called for payment and have not been presented for payment or interest) will be credited towards the Lease Payment then due and payable. No Lease Payment need be made on any Lease Payment Date if the amounts then held in the Lease Payment Fund (other than those amounts excluded under the prior sentence) are at least equal to the Lease Payment then required to be paid.

Rate on Overdue Payments. In the event the County should fail to make any of the Lease Payments required in the Lease, the Lease Payment in default will continue as an obligation of the

County until the amount in default will have been fully paid, and the County agrees to pay the same with interest thereon, to the extent permitted by law, from the date such amount was originally payable at the rate equal to the original interest rate payable with respect to each Certificate then represented by such delinquent Lease Payment.

No Withholding. Notwithstanding any dispute between the Authority and the County, including a dispute as to the failure of any portion of the Property in use by or possession of the County to perform the task for which it is leased, the County will make all Lease Payments and Additional Payments when due and will not withhold any Lease Payments pending the final resolution of such dispute.

Fair Rental Value

The Lease Payments and Additional Payments will be paid by the County in consideration of the right of possession of, and the continued quiet use and enjoyment of, the Property during each such period for which said Lease Payments are to be paid. The parties to the Lease have agreed and determined that such total rental represents the fair rental value of the Property. In making such determination, consideration has been given to the fair market value and replacement cost of the Property, other obligations of the parties under this Lease (including but not limited to costs of maintenance, taxes and insurance), the uses and purposes which may be served by the Property and the benefits therefrom which will accrue to the County and the general public, and the transfer of the Authority's leasehold interest in the Property at the end of the Term.

Budget and Appropriation

The County has covenanted to take such action as may be necessary to include all Lease Payments and Additional Payments (to the extent the amounts of such Additional Payments are known to the County at the time its annual budget is proposed), due under the Lease in its annual budget and to make the necessary annual appropriations therefor, and to maintain such items to the extent unpaid for that Fiscal Year in its budget throughout such Fiscal Year. To the extent the amount of such payments becomes known after the adoption of the annual budget, such amounts will be included and maintained in such budget as amended. The covenants on the part of the County contained in the Lease shall be deemed to be and shall be construed to be duties imposed by law and it shall be the ministerial duty of each and every public official of the County to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the County to carry out and perform the covenants and agreements in the Lease agreed to be carried out and performed by the County.

Abatement of Lease Payments in Event of Loss of Use

In the Event of Non-delivery. To the extent described below, the amount of Lease Payments and Additional Payments due under the Lease shall be abated during any period in which by reason of delay in the completion of the Project beyond the completion date set forth in the Lease there is substantial interference with the County's use and occupancy of the Project. The amount of such abatement shall be such that the resulting Lease Payments and Additional Payments do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the County, who may not be an employee of the County) for the use and occupancy of the Property and the completed portions of the improvements constituting the Project. Such abatement shall continue until the substantial completion of the Project. Notwithstanding the foregoing, the County shall remain obligated to make Lease Payments and Additional Payments under the Lease to the extent there are proceeds of any completion or performance bonds or moneys paid to the County by the contractors or any other person as liquidated damages as a result of any defect or delay in completion of the Project or to the extent that amounts in the Reserve Fund are available to pay Lease Payments and Additional Payments which would otherwise be abated under the Lease. Any amounts received by the County as liquidated damages for a delay in the completion of the Project shall be deposited by the County immediately upon receipt in the Lease Payment Fund.

In the Event of Damage, Destruction, Condemnation or Title Defect. Except to the extent that proceeds of the type described in the following paragraph are available, the amount of Lease Payments and Additional Payments shall be abated during any period in which by reason of damage, destruction or taking by eminent domain or condemnation of the Property or defects in the title with respect to the Property there is substantial interference with the use and possession of all or a portion of the Property by the County. The amount of such abatement shall be such that the resulting Lease Payments, exclusive of the amounts described in the following paragraph, do not exceed the fair rental value (as determined by an independent real estate appraiser selected by the County, who is not an employee of the County) for the use and possession of the portion of the Property not damaged, destroyed, interfered with or taken. Such abatement shall continue for the period commencing with such damage, destruction, interference or taking and ending with the substantial completion of the replacement or work of repair or the removal of the title defect causing such interference with use. Except as provided in the Lease, in the event of any such damage, destruction, interference or taking, the Lease shall continue in full force and effect and the County waives any right to terminate the Lease by virtue of any such damage, destruction, interference or taking.

Notwithstanding a substantial interference with the use and possession of all or a portion of the Property, the County shall remain obligated to make Lease Payments which would otherwise be abated (i) to the extent that moneys derived from any person as a result of any delay in the reconstruction, replacement or repair of the Property, or any portion thereof, are available to pay the amount which would otherwise be abated; and (ii) to the extent that moneys are available in the Reserve Fund or the Lease Payment Fund to pay the amount which would otherwise be abated. The Lease Payments shall be payable from such amounts paid under (i) and (ii) above as an obligation of the County payable from a special fund.

Repair or Replacement. In the event of such abatement, unless the abatement will be avoided as a result of a prepayment of Lease Payments from Net Proceeds, the County will use its best efforts to repair or replace the damaged or destroyed or taken portion of the Property, as the case may be, from Net Proceeds or special funds of the County or other moneys the application of which would, in the opinion of Special Counsel, not result in the obligations of the County under the Lease constituting indebtedness of the County in contravention of the Constitution and laws of the State.

Additional Payments. In addition to the Lease Payments, the County will also pay such amounts ("Additional Payments") as will be required for the payment of all administrative costs of the Authority relating to the Property or the Certificates and any Additional Certificates, including without limitation all expenses, compensation and indemnification of the Trustee payable by the County under the Trust Agreement, taxes of any sort whatsoever payable by the Authority as a result of its interest in the Property or undertaking of the transactions contemplated in the Lease or in the Trust Agreement, fees of auditors, accountants, attorneys or engineers and any and all other amounts due to the Insurer and all other necessary administrative costs of the Authority or charges required to be paid by it in order to maintain its existence or to comply with the terms of the Certificates and any

Additional Certificates or of the Trust Agreement including premiums or insurance maintained pursuant to the Lease or to indemnify the Authority and its employees, officers and directors and the Trustee. All such Additional Payments to be paid under the Trust Agreement shall be paid when due directly by the County to the respective parties to whom such Additional Payments are owing.

Net-Net-Net Lease

The Lease will be deemed and construed to be a "net-net-net lease" and the County has agreed that the Lease Payments will be an absolute net return to the Authority, free and clear of any expenses, charges or set-offs whatsoever, except as expressly provided in the Lease.

INSURANCE

Public Liability and Property Damage

Coverage. The County will maintain or cause to be maintained, throughout the Term of the Lease, a standard comprehensive general public liability and property damage insurance policy or policies in protection of the County, its officers, agents and employees. Said policy or policies will provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or operation of any County property or portion thereof.

Limits. Said policy or policies will provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of $500,000 in each case for damage to property resulting from each accident or event (subject to a deductible clause of not to exceed $250,000) or such higher amount as is consented to by the Insurer. Such public liability and property damage insurance may, however, be in the form of a single limit policy covering all such risks in an amount equal to the liability limits set forth in the Lease.

Joint or Self-Insurance. Such liability insurance, including the deductible, may be maintained as part of or in conjunction with any other insurance coverage carried by the County, and, subject to compliance with the Lease, may be maintained in the form of self-insurance by the County.

Payment of Net Proceeds. The proceeds of such liability insurance will be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds will have been paid.

Workers' Compensation

The County will also maintain workers' compensation insurance issued by a responsible carrier authorized under the laws of the State to insure its employees against liability for compensation under the Workers' Compensation Insurance and Safety Act now in force in the State, or any act enacted as an amendment or supplement thereto (with provision for self-insurance).

Casualty and Theft Insurance

Casualty and Theft Insurance; Coverage. The County will procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease, insurance against loss or damage to any portion of the Property caused by fire and lightning, with extended coverage and theft, vandalism and malicious mischief insurance. Said extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance, excluding flood and earthquake; provided, however, that a flood and earthquake rider shall be purchased if the County, in its reasonable discretion, determines that such coverage is available from reputable insurers at commercially reasonable rates.

Amount. Property, subject to a "deductible clause" not to exceed two hundred fifty thousand dollars ($250,000) for any one loss, or in the case of a flood and earthquake rider, ten percent (10%) of the coverage obtained. The term "full replacement value" as used in this paragraph shall mean the actual replacement cost of the improvements constituting the Property.

Joint or Self-Insurance. Such insurance may be maintained as part of or in conjunction with any other insurance carried or required to be carried by the County, and, subject to compliance with the Lease, may be maintained in the form of self-insurance by the County through a California joint powers authority.

Payment of Net Proceeds. The Net Proceeds of such insurance will be paid to the Trustee and deposited in the Net Proceeds Fund and applied as provided in the Lease.

Rental Interruption Insurance

Coverage and Amount. Upon delivery of the Property to it for occupancy, the County will maintain or cause to be maintained rental income or use and occupancy insurance in an amount not less than the maximum remaining scheduled Lease Payments in any future 24-month period, to insure against loss of rental income from the Property caused by perils covered by the insurance required to be maintained as provided in the Lease.

Joint Insurance. Such insurance may be maintained as part of or in conjunction with any other rental income or use and occupancy of insurance carried by the County.

Payment of Net Proceeds. The Net Proceeds of such rental interruption insurance will be paid to the Trustee and deposited (1) in the Reserve Fund to make up any deficiencies therein, and (2) deposited in the Lease Payment Fund, to be credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

Title Insurance

The County will obtain and, throughout the Term of the Lease, maintain or cause to be maintained title insurance on the Property, in the form of an ALTA title policy (with western regional exceptions), in an amount equal to the aggregate principal amount of the Certificates and Additional Certificates Outstanding, issued by a company of recognized standing, duly authorized to issue the same, payable to the Trustee for the benefit of the Owners, subject only to Permitted Encumbrances. Said policy or policies will insure the County's leasehold estate under the Lease in the Property, subject only to Permitted Encumbrances. All Net Proceeds received under said policy or policies will be deposited with the Trustee and applied as provided in the Trust Agreement. So long as any of the Certificates and Additional Certificates remain Outstanding, each policy of the title insurance obtained pursuant to the Lease or required thereby will provide that all proceeds thereunder will be payable to the Trustee for the benefit of the Certificate Owners and the owners of any Additional Certificates. The Net Proceeds of such insurance will be applied as provided in the Lease.

General Insurance Provisions

Form of Policies. All policies of insurance required to be procured and maintained pursuant to the Lease and any statements of self-insurance will be in a form certified by an insurance agent, broker or consultant to the County to comply with the provisions of the Lease. All such policies will provide that the County will give the Trustee 30 days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby. Each policy of insurance required to be procured and maintained pursuant to the Lease regarding casualty and theft insurance, regarding rental interruption insurance and regarding title insurance will provide that all proceeds thereunder will be payable to the Trustee for the benefit of the Owners.

Payment of Premiums. The County will pay or cause to be paid when due the premiums for all insurance policies required by the Lease.

Self Insurance. The County may only elect to self insure as permitted by the Lease if and to the extent such self-insurance method or plan of protection will afford reasonable protection to the Authority and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by other municipal corporations in the State other than the County. Insurance provided through a California joint powers authority of which the County is a member or with which the County contracts for insurance will be deemed to be self-insurance for purposes of the Lease where the insurance above the deductible limits described in the Lease is provided by commercial carriers. Any self-insurance maintained by the County pursuant to the Lease, unless otherwise consented to by the Insurer, will comply with the following terms:

(a) The self-insurance program will be approved in writing by the County's Chief Executive Officer or Assistant Chief Executive Officer in accordance with the California Labor Code and the California Government Code;

(b) The self-insurance program will include an actuarially sound claims reserve fund out of which each self-insured claim will be paid; the adequacy of such fund will be evaluated on an annual basis by the County's Chief Executive Officer or Assistant Chief Executive Officer; and any deficiencies in any self-insured claims reserve fund will be remedied in accordance with the recommendation of the County's Chief Executive Officer or Assistant Chief Executive Officer; and

(c) In the event the self-insurance program will be discontinued, the actuarial soundness of its claims reserve fund, as determined by the County's Chief Executive Officer or Assistant Chief Executive Officer, will be maintained.

DAMAGE, DESTRUCTION AND EMINENT DOMAIN; USE OF NET PROCEEDS

Application of Net Proceeds

Deposit in Net Proceeds Fund. The County will remit promptly to the Trustee any Net Proceeds received by the County from its casualty and theft insurance and its title insurance and the Trustee, pursuant to the Trust Agreement, will deposit such Net Proceeds of insurance in the Net

Proceeds Fund. The County and/or the Authority will transfer to the Trustee any other Net Proceeds received by the County and/or Authority in the event of any accident, destruction, theft or taking by eminent domain or condemnation with respect to the Project, for deposit in the Net Proceeds Fund.

Disbursement for Replacement or Repair of the Property. Upon receipt of the prior written consent of the Insurer and the certification described in paragraph (a) below and the requisition described in paragraph (b) below, the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm or corporation named in the requisition as provided in the Lease.

(a) Certification. As a precondition to the disbursement of Net Proceeds the County Representative must certify to the Authority and the Trustee within 45 days after the event causing receipt of the Net Proceeds (or such later date as is consented to by the Insurer) that:

(i) Sufficiency of Net Proceeds. The Net Proceeds available for such purpose, together with any other funds supplied by the County to the Trustee in a subaccount of the Net Proceeds Fund for such purpose, are expected to equal at least 110% of the projected costs of replacement or repair (or such lesser percentage as may be consented to by the Insurer), as demonstrated in an attached reconstruction budget, and

(ii) Timely Completion. In the event that damage, destruction or taking results or is expected to result in an abatement of Lease Payments, such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds, as described in the Lease together with other identified available moneys, will be available to pay in full all Lease Payments coming due during such period as demonstrated in an attached reconstruction schedule.

(b) Requisition. The County Representative must state with respect to each payment to be made (1) the requisition number, (2) the name and address of the person, firm or corporation to whom payment is due, (3) the amount to be paid and (4) that each obligation mentioned therein has been properly incurred, is a proper charge against the Net Proceeds Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation.

Any balance of the Net Proceeds remaining after such replacement or repair has been completed and after payment or provision for payment of all Certificates as provided in the Trust Agreement will be paid to the County after payment of amounts due the Trustee pursuant to the Trust Agreement.

Disbursement for Prepayment. If the County Representative notifies the Trustee in writing of the County's determination that the certification provided above cannot be made or that replacement or repair of any portion of the Property is not economically feasible or in the best interest of the County, then the Trustee will promptly transfer the Net Proceeds to the Prepayment Fund as provided in the Trust Agreement and apply them to prepayment of the Certificates as provided in the Trust Agreement and prepayment of Lease Payments as provided in the Lease; provided that in the event of damage or destruction in whole of the Property and in the event such Net Proceeds, together with funds then on hand in the Lease Payment Fund and Reserve Fund are not sufficient to prepay all the

Certificates then Outstanding, then the County will not be permitted to certify that repair, replacement or improvement of all of the Property is not economically feasible or in the best interest of the County. In such event, the County will proceed to repair, replace or improve the Property as described in the Lease from legally available funds in the then-current Fiscal Year and will make the required notification to the Trustee pursuant to the Trust Agreement and the Trustee will disburse moneys in the Net Proceeds Fund to the person, firm, or corporation named in the Requisition as provided therein.

COVENANTS WITH RESPECT TO THE PROPERTY

Option to Purchase

The County may exercise an option to purchase the Authority's interest under the Site Lease and the Lease in the Property by depositing with the Trustee cash and/or Government Obligations as provided in the Trust Agreement. In such event, all or a portion of the obligations of the County under the Lease, and the security provided by the Lease for said obligations or said portion of the obligations, will cease and terminate as provided in the Lease, excepting in the case all of the Authority's interest has been purchased, only the obligation of the County to make, or cause to be made, such Lease Payments from such deposit. In the event Lease Payments and Additional Payments under the Lease have been paid in full, on the date of said deposit, the Authority's interest in the Property will revert and transfer to the County automatically and without further action by the County or the Authority, and the Authority will execute and deliver such further instruments and take such further action as may reasonably be requested by the County for carrying out the reversion and transfer of the Authority's interests in the Property. In the event Lease Payments under the Lease have been paid in part only, on the date of said deposit, the County will specify a discrete portion of the Authority's interest in the Property for reversion and transfer to the County and the Authority will execute and deliver such further instruments and take such further action as may reasonably be requested by the County for carrying out the reversion and transfer of such portion of the Authority's interest in the Property; provided, that such portion will revert and transfer to the County only if (i) the reduction in the fair rental value of the Property effected by such reversion and transfer at the time of such reversion and transfer (as determined by an independent appraisal acceptable to the Authority and the Insurer) is proportionately less than or equal to the reduction in the maximum annual Lease Payments under the Lease effected by such purchase and (ii) the Insurer will have provided its written consent to such reversion and transfer. Any such deposit will be deemed to be and will constitute a special fund for the payment of Lease Payments in accordance with the Lease.

Maintenance, Utilities, Taxes and Assessments

(a) Maintenance; Repair and Replacement. Throughout the Term of the Lease, as part of the consideration for the rental of the Property, all repair and maintenance of the Property will be the responsibility of the County, and the County will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Property resulting from ordinary wear and tear or want of care on the part of the County or any sublessee thereof. The County waives the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver shall not limit any of the rights of the County under the terms of the Lease.

(b) Tax and Assessments; Utility Charges. The County will also pay or cause to be paid all taxes and assessments, including but not limited to utility charges, of any type or nature charged to the Authority or the County or levied, assessed or charged against any portion of the Property or the respective interests or estates therein; provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the County will be obligated to pay only such installments as are required to be paid during the Term of the Lease as and when the same become due.

(c) Contests. The County may, at its expense and in its name, in good faith contest any such taxes, assessments, utility and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom; provided that prior to such nonpayment it will furnish the Authority and the Trustee with the opinion of an Independent Counsel acceptable to the Authority, to the effect that, by nonpayment of any such items, the interest of the Authority in such portion of the Property will not be materially endangered and that the Property will not be subject to loss or forfeiture. Otherwise, the County will promptly pay such taxes, assessments or charges or make provisions for the payment thereof in form satisfactory to the Authority. The Authority will cooperate fully in such contest, upon the request and at the expense of the County.

Modification of the Property

Additions, Modifications and Improvements. The County will, at its own expense, have the right to make additions, modifications, and improvements to any portion of the Property if such improvements are necessary or beneficial for the use of such portion of the Property. All such additions, modifications and improvements will thereafter comprise part of the Property and be subject to the provisions of the Lease. Such additions, modifications and improvements will not in any way damage any portion of the Property or cause it to be used for purposes other than those authorized under the provisions of State and federal law or in any way which would impair the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest components of the Lease Payments; and the Property, upon completion of any additions, modifications and improvements made pursuant to the Lease, will be of a value which is not substantially less than the value of the Property immediately prior to the making of such additions, modifications and improvements.

Installation of County's Equipment. The County and any sublessee may at any time and from time to time, in its sole discretion and at its own expense, install or permit to be installed items of equipment or other personal property in or upon the Property. All such items shall remain the sole property of the County or such sublessee, and neither the Authority nor the Trustee shall have any interest therein. The County or such sublessee may remove or modify such equipment or other personal property at any time, provided that such party shall repair and restore any and all damage to the Property resulting from the installation, modification or removal of any such items. Nothing in the Lease shall prevent the County or any sublessee from purchasing items to be installed pursuant to the Lease under a conditional sale or lease purchase contract, or subject to a vendor's lien or security agreement as security for the unpaid portion of the purchase price thereof, provided that no such lien or security interest shall attach to any part of the Property.

No Liens. Except for Permitted Encumbrances, the County will not permit any mechanic's or other lien to be established or remain against the Property for labor or materials furnished in connection with any additions, modifications or improvements made by the County pursuant to the

Lease; provided that if any such lien is established and the County will first notify or cause to be notified the Authority of the County's intention to do so, the County may in good faith contest any lien filed or established against the Property, and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom and will provide the Authority with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Trustee (as assignee of the Authority). The Authority will cooperate fully in any such contest, upon the request and at the expense of the County.

Replacements, Redevelopment and Renovation. The County will, at its own expense, have the right to make replacements, redevelopment or renovation of all or a portion of the Property if the following conditions precedent are satisfied:

(a) The County receives an opinion of Special Counsel, a copy of which the County will furnish to the Authority and the Trustee, that (1) such replacement does not adversely affect the federal income tax exclusion or the State tax-exempt status of the interest with respect to the Certificates, and (2) the Lease will remain the legal, valid, binding and enforceable obligation of the County;

(b) In the event such replacement, redevelopment or renovation would result in the temporary abatement of Lease Payments as provided in the Lease, the County will notify the Insurer and any rating agency then providing a rating on the Certificates and shall deposit moneys with the Trustee in advance for payment of Lease Payments from special funds of the County or other moneys, the application of which would not, in the opinion of Special Counsel (a copy of which shall have been delivered to the Trustee), result in such Lease Payments constituting indebtedness of the County in contravention of the Constitution and laws of the State;

(c) The County will certify to the Trustee that it has sufficient funds to complete such replacement, redevelopment or renovation; and

(d) In the case of replacement or redevelopment, the County and the Trustee receive an independent appraisal from a California certified general appraiser that the annual fair rental value of the replacements will be at least equal to the annual fair rental value of the Property immediately prior to such replacement or redevelopment.

Encumbrances; Alternative Financing Methods

Encumbrances. Except as provided in the Lease, the County will not, directly or indirectly, create, incur, assume or suffer to exist any mortgage, pledge, liens, charges, encumbrances or claims, as applicable, on or with respect to the Property, other than Permitted Encumbrances and other than the respective rights of the Authority and the County as provided in the Lease. Except as expressly provided in the Lease, the County will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim, for which it is responsible, if the same will arise at any time; provided that the County may contest such liens if it desires to do so. The County will reimburse the Authority for any expense incurred by it in order to discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim.

Alternative Financing Methods. Notwithstanding the foregoing, the County may create or suffer to create any mortgage, pledge, liens, charges, encumbrances or claims upon the Property or any improvements thereto, provided that (1) any such mortgage, pledge, liens, charges, encumbrances or claims will at any time while any of the Certificates remain Outstanding be and remain subordinate in all respects to the Site Lease and Lease and any security interest given to the Trustee for the benefit of the Owners and (2) the County will have first delivered to the Trustee an opinion of Special Counsel substantially to the effect that such mortgage, pledge, liens, charges, encumbrances or claims would not result in the inclusion of the interest with respect to the Certificates in the gross income of the owners of the Certificates for purposes of federal income taxation or impair the State tax-exempt status of such payments.

Substitution or Release of the Property

The County will have the right to substitute alternate real property for any portion of the Property described in the Lease or to release a portion of the Property from the lien of the Lease by providing the Trustee with a supplement to the Lease substantially in the form attached as Exhibit D to the Lease and by satisfying the conditions set forth in paragraphs (i) through (viii) below. All costs and expenses incurred in connection with such substitution or release will be borne by the County. Notwithstanding any substitution pursuant to the Lease, there will be no reduction in or abatement of the Lease Payments due from the County under the Lease as a result of such substitution. No substitution or release will be permitted under the Lease unless:

(i) the County provides prior written notice thereof to the Insurer, together with a certificate that the substituted real property has an equivalent or greater useful life as the Property to be released and that the useful life of the substituted real property exceeds the remaining term of the Lease Payments under the Lease;

(ii) an independent California Certified General or equivalent certified real estate appraiser selected by the County finds (and delivers a certificate to the County and the Trustee setting forth its findings) that the substituted real property or the property remaining after the release has a fair rental value greater than or equal to the Lease Payments thereafter becoming due and payable under the Lease so that the Lease Payments payable by the County pursuant to the Lease will not be abated;

(iii) the County obtains or causes to be obtained an ALTA title insurance policy (with western regional exceptions) with endorsement so as to be payable to the Trustee for the benefit of the Owners showing no prior liens thereon other then Permitted Encumbrances. Such policy will comply with the Lease, will be in a form satisfactory to the Insurer, the Trustee and the Authority, will be in the amount equal to the principal component of Lease Payments attributable to the substituted real property, and will insure the leasehold interest or the fee simple interest of the Authority or the County, as applicable, to the substituted real property;

(iv) the County provides the Authority and the Trustee with an opinion of Special Counsel that such substitution does not cause, in and of itself, the interest evidenced and represented by the Certificates to be included in gross income for federal income tax purposes;

(v) the County will give, or cause to be given, any notice of the occurrence of such substitution required to be given pursuant to the Continuing Disclosure Certificate;

(vi) upon the substitution of any real property and improvements thereon for all or a portion of the Property then existing, the County, the Authority and the Trustee will execute and the County will record with the office of the County Recorder, County of Stanislaus, California, any document necessary to reconvey to the County the portion of the Property being substituted and to include the substituted real property and/or improvements thereon as all or a portion of the Property;

(vii) the County will certify to the Trustee and the Insurer that the substituted real property is of approximately the same degree of essentiality to the County as the portion of the Property being replaced; and

(viii) the Trustee will receive the Insurer's prior written consent to such substitution and shall proved a copy of such notice to S&P.

Condemnation of Property

The County has agreed, to the extent it may lawfully do so, that so long as any of the Certificates remain outstanding and unpaid, the County will not exercise the power of condemnation with respect to the Property. The County has agreed, to the extent it may lawfully do so, that if for any reason the foregoing covenant is determined to be unenforceable or if the County will fail or refuse to abide by such covenant and condemns the Property, then the appraised value of the Property will not be less than the greater of: (i) if the Certificates are then subject to optional prepayment, the principal and interest components of the Certificates outstanding through the date of their prepayment, or (ii) if the Certificates are not then subject to optional prepayment, the amount necessary to defease the Certificates to the first available prepayment date in accordance with the Trust Agreement.

ASSIGNMENT, SUBLEASING AND AMENDMENT

Assignment by the Authority

Except as provided in the Lease, in the Trust Agreement and the Assignment Agreement, the Authority will not assign the Lease to any other person, firm or corporation so as to impair or violate the representations, covenants and warranties contained in the Lease.

Assignment and Subleasing by the County

Assignment. The Lease may be assigned by the County, with the consent of the Insurer, so long as such assignment does not, in the opinion of Special Counsel, adversely affect the State tax-exempt status or the exclusion from gross income for federal income tax purposes of the interest with respect to the Certificates or affect the validity of the Lease. In the event that the Lease is assigned by the County, the obligation to make Lease Payments under the Lease will remain the obligation of the County.

Sublease. The County may sublease all or any portion of the Property, with the consent of the Trustee (as assignee of the Authority) and the Insurer, subject to (i) the Lease and the obligation of the County to make Lease Payments under the Lease will remain obligations of the County;

(ii) the County will, within 30 days after the delivery thereof, furnish or cause to be furnished to the Authority, the Trustee and the Insurer a true and complete copy of such sublease (iii) no sublease by the County will cause the Property to be used for a purpose other than a governmental or proprietary function authorized under the provisions of the laws of the State; and (iv) no sublease will cause the interest due with respect to the Certificates to become includable in gross income for federal income tax purposes or subject to State personal income taxes.

Amendments and Modifications. The Lease may be amended or any of its terms modified with the written consent of the Insurer, the County and the Trustee (as assignee of the Authority), in accordance with the Trust Agreement.

EVENTS OF DEFAULT AND REMEDIES

Events of Default Defined

The following will be "events of default" under the Lease and the terms "events of default" and "default" means, whenever they are used in the Lease, any one or more of the following events:

Payment Default. Failure by the County to pay any Lease Payment required to be paid under the Lease by the corresponding Lease Payment Date; and

Covenant Default. Failure by the County to observe and perform any warranty, covenant, condition or agreement on its part to be observed or performed in the Lease or otherwise with respect thereto or in the Trust Agreement or in the Site Lease, other than as referred to in the foregoing paragraph, for a period of 30 days after written notice specifying such failure and requesting that it be remedied has been given to the County by the Authority, the Insurer, the Trustee, or the Owners of not less than 20% in aggregate principal amount of Certificates then Outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Authority, the Insurer or such Owners, as the case may be, will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the County within the applicable period and diligently pursued until the default is corrected, except that such grace period will not exceed 60 days without the prior written consent of the Insurer.

Bankruptcy or Insolvency. The filing by the County of a case in bankruptcy, or the subjection of any right or interest of the County under the Lease to any execution, garnishment or attachment, or adjudication of the County as a bankrupt, or assignment by the County for the benefit of creditors, or the entry by the County into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the County in any proceedings instituted under the provisions of the federal bankruptcy code, as amended, or under any similar act which may be enacted.

Remedies on Default

Whenever any event of default referred to in the Lease will have happened and be continuing, it will be lawful for the Authority to exercise any and all remedies available pursuant to law or granted pursuant to the Lease. Notwithstanding anything in the Lease or in the Trust Agreement to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. After the occurrence of an event of default under the Lease, the County will surrender possession of the Property to the Authority, if requested to do so by the Authority, the Trustee or the Owners, in accordance with the provisions of the Trust Agreement. So long as the Insurer is not in default under the Insurance Policy, the Insurer will control all remedies upon an event of default under the Lease. The Owners' direction of remedies upon default are subject to the prior written consent of the Insurer. The Insurer, acting alone, will have the right to direct all remedies upon an event of default.

No Termination; Repossession and Re-Lease on Behalf of County. In the event the Authority does not elect to terminate the Lease in the manner provided for in the Lease, the Authority may, with the consent of the County, which consent has been irrevocably given, repossess the Property and re-lease it for the account of the County, in which event the County's obligation will accrue from year to year in accordance with the Lease and the County will continue to receive the value of the use of the Property from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the County will remain the same as prior to such default, to pay Lease Payments and Additional Payments whether the Authority re-enters or not. The County will remain liable for the payment of all Lease Payments and Additional Payments and the performance of all conditions contained in the Lease and will reimburse the Authority for any deficiency arising out of the releasing of the Property, or, in the event the Authority is unable to re-lease the Property, then for the full amount of all Lease Payments and Additional Payments to the end of the Term of the Lease, but said Lease Payments and Additional Payments and/or deficiency will be payable only at the same time and in the same manner as provided for the payment of Lease Payments and Additional Payments under the Lease, notwithstanding such repossession by the Authority or any suit brought by the Authority for the purpose of effecting such repossession of the Property or the exercise of any other remedy by the Authority.

The County has irrevocably appointed the Authority as the agent and attorney-in-fact of the County to repossess and re-lease the Property in the event of default by the County in the performance of any covenants contained in the Lease to be performed by the County and to remove all personal property whatsoever situated upon the Property, to place such property in storage or other suitable place in the County of Stanislaus, for the account of and at the expense of the County, and the County has exempted and agreed to save harmless the Authority from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-leasing of the Property.

The County will retain the portion of rental obtained by the Trustee, as assignee of the Authority, that is in excess of the Lease Payments and Additional Payments, the fees, expenses and costs of the Trustee of re-leasing the Property, and all amounts payable by the County under the Lease and the Trust Agreement.

In the event that the liability of the County under this subsection (a) is held to constitute indebtedness or liability in any year exceeding in any year the income and revenue provided for such year, the Authority, or the Trustee or the Owners, as assignees of the Authority, shall not exercise the remedies provided in this subsection (a).

Termination; Repossession and Re-Lease. In the event of the termination of the Lease by the Authority at its option and in the manner provided on account of default by the County (and notwithstanding any repossession of the Property by the Authority in any manner whatsoever or the re-leasing of the Property), the County nevertheless has agreed to pay to the Authority all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease in the case of payment of Lease Payments and Additional Payments. Any proceeds of the re-lease or other disposition of the Property by the Authority will be deposited into the Lease Payment Fund and be applied in accordance with the provisions of the Trust Agreement. Any surplus received by the Trustee, as assignee of the Authority, from such re-leasing over total Lease Payments will be remitted to the County. Additional Payments that would have been due under the Lease and the fees, expenses and costs of the Trustee as assignee of the Authority on re-leasing the Property will be remitted to the County.

Opinion of Special Counsel. The re-leasing of the Property as provided in the Lease will be subject to the opinion of Special Counsel that such re-leasing will not cause the interest with respect to the Certificates to be subject to State personal income tax or adversely affect the exclusion from gross income for federal income tax purposes of such amounts.

No Termination by County

Under no circumstances may the County terminate the Lease as a remedy for a default by the Authority in the performance of any obligation of the Authority under the Lease.

No Remedy Exclusive

No remedy conferred in the Lease upon or reserved to the Authority is intended to be exclusive and every such remedy will be cumulative and will be in addition to every other remedy given under the Lease existing at law or in equity. No delay or omission to exercise any right or power accruing upon any default will impair any such right or power or will be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient.

No Additional Waiver Implied by One Waiver

In the event any agreement contained in the Lease should be breached by either party and thereafter waived by the other party; such waiver will be limited to the particular breach so waived and will not be deemed to waive any other breach under the Lease.

Application of the Proceeds from the Re-Lease of the Property

All amounts received by the Authority under the Lease will, subject to the Trust Agreement, be deposited by the Trustee in the Lease Payment Fund and applied as described under the heading "EVENTS OF DEFAULT AND REMEDIES OF CERTIFICATE OWNERS – Application of Proceeds."

Trustee and Owners to Exercise Rights

Such rights and remedies as are given to the Authority under the Lease have been assigned by the Authority to the Trustee under the Assignment Agreement, to which assignment the County has consented. Such rights and remedies will be exercised by the Trustee and the Owners as provided in the Trust Agreement.

PREPAYMENT OF LEASE PAYMENTS

Security Deposit

Notwithstanding any other provision of the Lease, the County may, on any date, secure the payment of Lease Payments and Additional Payments by a deposit by it with the Trustee of cash and/or Government Obligations as provided in the Trust Agreement. In such event, and provided that the County has paid any other amounts due and owing under the Lease and the Trust Agreement, all obligations of the County under the Lease, and all security provided by the Lease for said obligations, will cease and terminate, excepting only the obligation of the County to make, or cause to be made, Lease Payments and Additional Payments from such deposit. On the date of said deposit title to the Property will vest in the County automatically and without further action by the County or the Authority (except as provided in the Lease). Said deposit will be deemed to be and will constitute a special fund for the payment of Lease Payments in accordance with the provisions of the Lease.

Extraordinary Prepayment

The County will be obligated to prepay the Lease Payments in whole or in part on any date, from and to the extent of any Net Proceeds or other moneys theretofore deposited in the Prepayment Fund (at least 45 days prior to the date fixed for prepayment of the Certificates) pursuant to the Trust Agreement. The County and the Authority have agreed that such Net Proceeds or other moneys will be credited towards the County's obligations under the Lease (except in the case of such prepayment of the Lease Payments in whole) pro rata among Lease Payments so that following Prepayment, the remaining annual Lease Payments will be proportional to the initial annual Lease Payments.

Optional Prepayment

Subject to the terms and conditions of the Lease, the Authority has granted an option to the County to prepay all or a portion of the Lease Payments to the extent and on the dates at the prepayment prices set forth in the Trust Agreement, provided that no amounts are owed to the Insurer under the Insurance Policy. The County and the Authority have agreed that such prepayments will be credited toward County's obligations under the Lease corresponding to the resulting prepayment of the Certificates and Additional Certificates in accordance with the Trust Agreement on the dates and at the prepayment prices provided therein.

APPENDIX D

FORM OF APPROVING OPINION OF SPECIAL COUNSEL

[Closing Date]

Board of Supervisors
of the County of Stanislaus
Modesto, California

Stanislaus County Capital Improvements
Financing Authority
Modesto, California

Re: *$15,340,000 County of Stanislaus Certificates of Participation (2004 Capital Improvement Projects) Series 2004A and $27,455,000 County of Stanislaus Certificates of Participation (2004 Capital Improvement Projects) Series 2004B*

Ladies and Gentlemen:

We have reviewed the Constitution and the laws of the State of California and certain proceedings taken by the County of Stanislaus, California (the "County") in connection with the authorization, execution and delivery by the County of that certain Lease Agreement, dated as of April 1, 2004 (the "Series 2004A Lease"), by and between the Stanislaus County Capital Improvements Financing Authority (the "Authority") and the County, that certain Lease Agreement, dated as of April 1, 2004 (the "Series 2004B Lease," and together with the Series 2004A Lease, the "Leases"), by and between the Authority and the County. We have also reviewed that certain Trust Agreement, dated as of April 1, 2004 (the "Series 2004A Trust Agreement"), by and among BNY Western Trust Company, as trustee (the "Trustee"), the Authority and the County and that certain Trust Agreement dated as of April 1, 2004 (the "Series 2004B Trust Agreement," and together with the Series 2004A Trust Agreement, the "Trust Agreements"), by and among the Trustee, the Authority and the County. All capitalized terms used herein shall have the meaning given them in the Trust Agreements unless otherwise defined.

Pursuant to the Series 2004A Trust Agreement, the Trustee has agreed to execute and deliver the $15,340,000 County of Stanislaus Certificates of Participation (2004 Capital Improvement Projects) Series 2004A (the "Series 2004A Certificates") evidencing proportionate interests of the Owners of the Series 2004A Certificates in lease payments (the "Series 2004A Lease Payments") to be made by the County pursuant to the Series 2004A Lease. Pursuant to that certain Assignment Agreement (the "Series 2004A Assignment Agreement") dated as of April 1, 2004, by and between the Authority and the Trustee, the Authority has assigned to the Trustee as security for the Series 2004A Certificates the Authority's right to receive Series 2004A Lease Payments from the County under the Series 2004A Lease.

Pursuant to the Series 2004B Trust Agreement, the Trustee has agreed to execute and deliver the $27,455,000 County of Stanislaus Certificates of Participation (2004 Capital Improvement Projects) Series 2004B (the "Series 2004B Certificates," and together with the Series 2004A Certificates, the "Certificates") evidencing proportionate interests of the Owners of the Series 2004B Certificates in lease payments (the "Series 2004B Lease Payments," and together with the Series 2004A Lease Payments, the "Lease Payments") to be made by the County pursuant to the Series 2004B Lease. Pursuant to that certain Assignment Agreement (the "Series 2004B Assignment Agreement," and together with the Series 2004A Assignment Agreement, the "Assignment Agreements") dated as of April 1, 2004, by and between the Authority and the Trustee, the Authority has assigned to the Trustee as security for the Series 2004B

Certificates the Authority's right to receive Series 2004B Lease Payments from the County under the Series 2004B Lease.

The Certificates are dated the Closing Date. The Certificates mature on the dates and in the amounts set forth in the Trust Agreements. Interest due with respect to the Certificates is payable on the dates and at the rates per annum set forth in the Trust Agreements. The Certificates are registered Certificates in the form set forth in the Trust Agreements and are subject to optional, extraordinary and mandatory prepayment prior to maturity in the manner and upon the terms set forth in the Trust Agreements.

The County has elected, pursuant to Treasury Regulation Section 1.150-1(c)(3) that the Series 2004A Certificates, the proceeds of which are to be applied to finance the Gallo Center for the Arts, shall constitute qualified 501(c)(3) bonds, within the meaning of Section 145 of the Internal Revenue Code of 1986, as amended (the "Code"). In rendering this opinion, we have relied on the opinion of Slovak Baron & Empey LLP, counsel to the Central Valley Center for the Arts, Inc., a California non-profit public benefit corporation ("CVCA") and Gallo Center for the Arts, LLC, a California limited liability company solely owned by CVCA (also referred to as "CVCA"), regarding, among other matters, the current qualification of CVCA as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). We note that such opinion is subject to a number of qualifications and limitations. Failure of CVCA to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code may result in interest with respect to the Certificates being included in gross income for federal income tax purposes, possibly from the date of execution and delivery of the Certificates.

Based upon our examination of the foregoing, and in reliance thereon and on all matters of fact as we deem relevant under the circumstances, and upon consideration of applicable laws, we are of the opinion that:

1. The obligations of the County to pay Lease Payments in accordance with the terms of the Leases are valid and binding obligations payable from the funds of the County lawfully available therefor, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against counties in the State of California. The obligations of the County to make Lease Payments under the Leases do not constitute debts of the County, the State of California or any political subdivision thereof within the meaning of any statutory or constitutional debt limitation or restriction and do not constitute a pledge of the faith and credit or taxing power of the County, the State of California or any political subdivision thereof.

2. The Leases and the Trust Agreements have been duly authorized, executed and delivered by the County and constitute valid and legally binding agreements of the County enforceable against the County in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance or other laws relating to or affecting generally the enforcement of creditors' rights, by equitable principles, by the exercise of judicial discretion in appropriate cases and by the limitations on legal remedies against counties in the State of California, except that we express no opinion as to any provisions in the Leases or the Trust Agreements with respect to indemnification, penalty, contribution, choice of law, choice of forum or waiver provisions contained therein.

3. Under existing statutes, regulations, rulings and judicial decisions, interest due with respect to the Certificates (and original issue discount) 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; however, it should be noted that, with respect to corporations,

such interest (and original issue discount) will be included as an adjustment in the calculation of alternative minimum taxable income, which may affect the alternative minimum tax liability of such corporations. The foregoing opinion is subject to the condition that the County and CVCA comply with all requirements of the Code, that must be satisfied subsequent to the execution and delivery of the Certificates to assure that the portion of the Certificates designated as and comprising interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the portion of the Certificates designated as and comprising interest (and original issue discount) to be included in gross income for federal income tax purposes retroactive to the date of execution and delivery of the Certificates. The County and CVCA have covenanted to comply with all such requirements.

4. The portion of the Certificates designated as and comprising interest as described in paragraph (3) above is exempt from State of California personal income tax.

5. The difference between the issue price of a Certificate (the first price at which a substantial amount of the Certificates of a maturity are to be sold to the public) and the stated payment price at maturity with respect to such Certificate constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Certificate owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Certificate owner will increase the Certificate owner's basis in the applicable Certificate. Original issue discount that accrues for the Certificate owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals or corporations (as described in paragraph (3) above) and is exempt from State of California personal income tax.

6. The amount by which a Certificate owner's original basis for determining loss on sale or exchange in the applicable Certificate (generally, the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable Certificate premium, which must be amortized under Section 171 of the Code; such amortizable Certificate premium reduces the Certificate owner's basis in the applicable Certificate (and the amount of tax-exempt interest received), and is not deductible for federal income tax purposes. The basis reduction as a result of the amortization of Certificate premium may result in a Certificate owner realizing a taxable gain when a Certificate is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Certificate to the owner.

Except as expressly set forth in paragraphs (3), (4), (5) and (6), we express no opinion regarding any tax consequences with respect to the Certificates.

Certain agreements, requirements and procedures contained or referred to in the Trust Agreements, the Tax Certificate executed by the County and other documents related to the Certificates may be changed and certain actions may be taken or omitted, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the exclusion from gross income for federal income tax purposes of the portion of each Certificate constituting interest if any such change occurs or action is taken or omitted upon advice or approval of counsel other than Stradling Yocca Carlson & Rauth, a Professional Corporation.

We have not made or undertaken to make an investigation of the state of title to any of the real property described in the Leases, the Site Leases or the Assignment Agreements or of the accuracy or sufficiency of the description of such property contained therein, and we express no opinion with respect to such matters.

We are admitted to the practice of law only in the State of California and our opinion is limited to matters governed by the laws of the State of California and federal law. We assume no responsibility with respect to the applicability or the effect of the laws of any other jurisdiction and express no opinion as to the enforceability of the choice of law provisions contained in the Trust Agreement.

The opinions expressed herein are based upon our analysis and interpretation of existing statutes, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. Our engagement as to the Certificates terminates as of their date of execution and delivery. In rendering this opinion, we have relied upon certain representations of fact and certifications made by the County, the Authority, the initial purchasers of the Certificates and others. We have not undertaken to verify through independent investigation the accuracy of the representations and certifications relied upon by us.

We express no opinion herein as to the accuracy, completeness or sufficiency of the Official Statement or other offering material relating to the Certificates, and expressly disclaim any duty to advise the Owners of the Certificates with respect to matters contained in the Official Statement.

Respectfully submitted,

APPENDIX E

FORM OF INSURANCE POLICY

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Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

Ambac

Ambac Assurance Corporation
One State Street Plaza,
New York, New York 10004
Telephone: (212) 668-0340

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

In the event that Ambac Assurance Corporation were to become insolvent, any claims arising under the Policy would be excluded from coverage by the California Insurance Guaranty Association, established pursuant to the laws of the State of California.

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation

Robert J. Genader

AMBAC ASSURANCE CORPORATION CORPORATE SEAL WISCONSIN

Anne G. Gill

President

Secretary

Authorized Representative

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Agreement") dated as of April 1, 2004 by and between the County of Stanislaus, California (the "County") and BNY Western Trust Company, as trustee (the "Trustee") under a Trust Agreement, dated as of April 1, 2004 (the "Series 2004A Trust Agreement") by and among the County, the Stanislaus County Capital Improvements Financing Authority (the "Authority") and the Trustee and a Trust Agreement, dated as of April 1, 2004 (the "Series 2004B Trust Agreement" and, together with the Series 2004A Trust Agreement, the "Trust Agreements"), by and among the County, the Authority and the Trustee, is executed and delivered in connection with the execution and delivery of the County's Certificates of Participation (2004 Capital Improvement Projects) Series 2004A (the "Series 2004A Certificates") in an aggregate principal amount of $15,340,000 and the County Certificates of Participation (2004 Capital Improvement Projects) Series 2004 B (the "Series 2004B Certificates and, together with the Series 2004A Certificates, the "Certificates") in an aggregate principal amount of $27,455,000. Capitalized terms used in this Agreement which are not otherwise defined in the Trust Agreements shall have the respective meanings specified above or in Article IV hereof.

ARTICLE I
THE UNDERTAKING

Section 1.1 __Purpose__. This Agreement shall constitute a written undertaking for the benefit of the holders of the Certificates, and is being executed and delivered solely to assist the Underwriters in complying with subsection (b)(5) of the Rule.

Section 1.2 __Annual Financial Information__. (a) The County shall provide Annual Financial Information with respect to each fiscal year of the County, commencing with fiscal year 2003-04, by no later than January 31 after the end of the prior fiscal year, to each NRMSIR and the SID.

(b) The County shall provide, in a timely manner, notice of any failure of the County to provide the Annual Financial Information by the date specified in subsection (a) above to (i) either the MSRB or each NRMSIR, and (ii) the SID. See Exhibit A attached hereto.

Section 1.3 __Audited Financial Statements__. If not provided as part of Annual Financial Information by the date required by Section 1.2(a) hereof, the County shall provide Audited Financial Statements, when and if available, to each NRMSIR and the SID.

Section 1.4 __Notices of Material Events__. (a) If a Material Event occurs, the County shall provide, in a timely manner, a Material Event Notice to (i) either the MSRB or each NRMSIR, (ii) the SID, and (iii) the Trustee.

(b) The Trustee shall promptly advise the County whenever, in the course of performing its duties as Trustee under the Trust Agreements, the Trustee has actual notice of an occurrence listed as a Material Event hereunder; provided, however, that the failure of the Trustee so to advise the County shall not constitute a breach by the Trustee of any of its duties and responsibilities under this Agreement or the Trust Agreements and the Trustee shall have no duty to determine the materiality of such event.

Section 1.5 **Additional Disclosure Obligations.** The County acknowledges and understands that other state and federal laws, including but not limited to the Securities Act of 1933 and Rule 10b-5 promulgated under the Securities Exchange Act of 1934, may apply to the County, and that under some circumstances compliance with this Agreement, without additional disclosures or other action, may not fully discharge all duties and obligations of the County under such laws.

Section 1.6 **Additional Information.** Nothing in this Agreement shall be deemed to prevent the County from disseminating any other information, using the means of dissemination set forth in this Agreement or any other means of communication, or including any other information in any Annual Financial Information or notice of Material Event hereunder, in addition to that which is required by this Agreement. If the County chooses to include any information in any Annual Financial Information or Material Event Notice in addition to that which is specifically required by this Agreement, the County shall have no obligation under this Agreement to update such additional information or include it in any future Annual Financial Information or notice of a Material Event hereunder.

Section 1.7 **No Previous Non-Compliance.** The County represents that, other than as disclosed in the Official Statement, it has not failed to comply in any material respect with any previous undertaking in a written contract or agreement specified in paragraph (b)(5)(i) of the Rule.

ARTICLE II
OPERATING RULES

Section 2.1 **Reference to Other Documents.** It shall be sufficient for purposes of Section 1.2 hereof if the County provides Annual Financial Information by specific reference to documents previously: (i) either (1) provided to each NRMSIR existing at the time of such reference and the SID, or (2) filed with the SEC; and (ii) if such document is an Official Statement, available from the MSRB.

Section 2.2 **Submission of Information.** Annual Financial Information may be provided in one document or multiple documents, and at one time or in part from time to time.

Section 2.3 **Material Event Notices.** Each Material Event Notice shall be so captioned and shall prominently state the title, date and CUSIP numbers of the Certificates.

Section 2.4 **Filing with Certain Dissemination Agents.** The County may satisfy its obligations hereunder to file any notice, document or information with a NRMSIR or SID by filing the same with any dissemination agent, including any "central post office" or similar entity, assuming or charged with responsibility for accepting notices, documents or information for transmission to such NRMSIR or SID, to the extent permitted or required by the SEC. For this purpose, permission shall be deemed to have been granted by the SEC if and to the extent the agent has received a "no-action" letter, which has not been revoked, from the SEC to the effect that enforcement action would not be recommended on account of using the agent, and not such NRMSIR or SID, as the source of information in determining compliance with the Rule.

Section 2.5 **<u>Transmission of Information and Notices</u>.** Unless otherwise required by law and, in the County's sole determination, subject to technical and economic feasibility, the County shall employ such methods of information and notice transmission as shall be requested or recommended by the herein-designated recipients of the County's information and notices.

Section 2.6 **<u>Fiscal Year</u>.** Annual Financial Information shall be provided at least annually notwithstanding any fiscal year longer than 12 calendar months. The County's fiscal year currently begins July 1 and ends June 30, and the County shall promptly notify (i) each NRMSIR, (ii) the SID and (iii) the Trustee of each change in its fiscal year.

ARTICLE III
EFFECTIVE DATE, TERMINATION, AMENDMENT AND ENFORCEMENT

Section 3.1 **<u>Effective Date; Termination</u>.** (a) This Agreement shall be effective upon the delivery of the Certificates.

(b) The County's and the Trustee's obligations under this Agreement shall terminate upon a legal defeasance pursuant to Sections 14.01 of the Trust Agreements, prior prepayment or payment in full of all of the Certificates. In addition, the Trustee's obligations hereunder shall terminate upon its resignation or removal as Trustee in accordance with the provisions of the Trust Agreements.

(c) This Agreement, or any provision hereof, shall be null and void in the event that the County (1) delivers to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the County and Trustee, to the effect that those portions of the Rule which require this Agreement, or any of the provisions hereof, do not or no longer apply to the Certificates, whether because such portions of the Rule are invalid, have been repealed, or otherwise, as shall be specified in such opinion, and (2) delivers copies of such opinion to each NRMSIR and the SID.

Section 3.2 **<u>Amendment</u>.** (a) This Agreement may be amended, by written agreement of the parties, without the consent of the holders of the Certificates (except to the extent required under clause (4)(ii) below), if all of the following conditions are satisfied: (1) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of the County or the type of business conducted thereby; (2) this Agreement as so amended would have complied with the requirements of the Rule as of the date of this Agreement, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (3) the County shall have delivered to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the County and the Trustee, to the same effect as set forth in clause (2) above; (4) either (i) the County shall have delivered to the Trustee an opinion of nationally recognized bond counsel or counsel expert in federal securities laws, addressed to the County and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Certificates or (ii) the holders of the Certificates consent to the amendment to this Agreement pursuant to the same procedures as are required for amendments to the Trust Agreements with consent of holders of the Certificates pursuant to the terms of the Trust Agreements as in effect on the date of this Agreement; and (5) the County shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(b) In addition to subsection (a) above, this Agreement may be amended and any provision of this Agreement may be waived, by written agreement of the parties, without the consent of the holders of the Certificates, if all of the following conditions are satisfied: (1) an amendment to the Rule is adopted, or a new or modified official interpretation of the Rule is issued, after the effective date of this Agreement which is applicable to this Agreement, (2) the County shall have delivered to the Trustee an opinion of counsel, addressed to the County and the Trustee, to the effect that performance by the County and Trustee under this Agreement as so amended or giving effect to such waiver, as the case may be, will not result in a violation of the Rule and (3) the County shall have delivered copies of such opinion and amendment to each NRMSIR and the SID.

(c) To the extent any amendment to this Agreement results in a change in the type of financial information or operating data provided pursuant to this Agreement, the first Annual Financial Information provided thereafter shall include a narrative explanation of the reasons for the amendment and the impact of the change.

(d) If an amendment is made to 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. Such comparison shall include a qualitative and, to the extent reasonably feasible, quantitative 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. Notice of such amendment shall be provided by the County to (i) either the MSRB or each NRMSIR and (ii) the SID.

Section 3.3 **<u>Benefit; Third-Party Beneficiaries; Enforcement</u>.** (a) The provisions of this Agreement shall inure solely to the benefit of the County, the Trustee and the holders from time to time of the Certificates, except that beneficial owners of Certificates shall be third-party beneficiaries of this Agreement.

(b) Except as provided in subsection (a) above and this subsection (b), the provisions of this Agreement shall create no rights in any person or entity. The obligations of the County to comply with the provisions of this Agreement shall be enforceable (i) in the case of enforcement of obligations to provide financial statements, financial information, operating data and notices, by any holder of Outstanding Certificates, or by the Trustee on behalf of the holders of Outstanding Certificates, or, (ii) in the case of challenges to the adequacy of the financial statements, financial information and operating data so provided, by the Trustee on behalf of the holders of Outstanding Certificates; provided, however, that the Trustee shall not be required to take any enforcement action except at the written direction of the holders of not less than a majority in aggregate principal amount of the Certificates at the time Outstanding who shall have provided the Trustee with indemnity satisfactory to the Trustee from any loss, cost, liability or expense, including without limitation, fees and expenses of its attorneys and additional fees and expenses of the Trustee. The holders' and Trustee's rights to enforce the provisions of this Agreement shall be limited solely to a right, by action in mandamus or for specific performance, to compel performance of the County's obligations under this Agreement. In consideration of the third-party beneficiary status of beneficial owners of Certificates pursuant to subsection (a) of this Section, beneficial owners shall be deemed to be holders of Certificates for purposes of this subsection (b).

(c) Any failure by the County or the Trustee to perform in accordance with this Agreement shall not constitute a default or an Event of Default under the Trust Agreements, and the rights and remedies provided by the Trust Agreements upon the occurrence of a default or an Event of Default shall not apply to any such failure.

(d) This Agreement shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of this Agreement shall be instituted in a court of competent jurisdiction in the State; provided, however, that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

ARTICLE IV
DEFINITIONS

Section 4.1 Definitions. The following terms used in this Agreement shall have the following respective meanings:

(1) "Annual Financial Information" means the financial information and operating data with respect to the County, for each fiscal year of the County, as described under the section of the Official Statement entitled "County Financial Information". Annual Financial Information shall also include Audited Financial Statements, if available, or Unaudited Financial Statements.

(2) "Audited Financial Statements" means the annual financial statements, if any, of the County, audited by such auditor as shall then be required or permitted by State law or the Trust Agreements. Audited Financial Statements shall be prepared in accordance with GAAP; provided, however, that the County may from time to time, if required by federal or State legal requirements, modify the accounting principles to be followed in preparing its financial statements. The notice of any such modification required by Section 3.2(d) hereof shall include a reference to the specific federal or State law or regulation describing such accounting principles.

(3) "GAAP" means generally accepted accounting principles as prescribed for governmental units by the Governmental Accounting Standards Board.

(4) "Material Event" means any of the following events with respect to the Certificates, whether relating to the County or otherwise, if material:

(i) principal and interest payment delinquencies;
(ii) non-payment related defaults;

(iii) unscheduled draws on the 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) bond calls (except in the case of a mandatory, scheduled redemption, not otherwise contingent upon the occurrence of an event, if the terms under which the redemption is to occur are set forth in detail in the Official Statement and the only open issue is which Certificates will be redeemed in the case of a partial redemption, provided notice of the redemption is given to the Certificateholders and the public; see, Exchange Act Release No. 23856, Dec. 3, 1986);
(ix) defeasances;
(x) release, substitution, or sale of property securing repayment of the securities; and
(xi) rating changes.

(5) "Material Event Notice" means written or electronic notice of a Material Event.

(6) "MSRB" means the Municipal Securities Rulemaking Board established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934.

(7) "NRMSIR" means, at any time, a then-existing nationally recognized municipal securities information repository, as recognized from time to time by the SEC for the purposes referred to in the Rule. The NRMSIRs are identified on the SEC website at http://www.sec.gov /consumer/nrmsir.htm. See Exhibit B for a current list of the NRMSIRs.

(8) "Official Statement" means the "final official statement", as defined in paragraph (f)(3) of the Rule, relating to the Certificates.

(9) "Rule" means Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934 (17 CFR Part 240, '240.15c2-12), as in effect on the date of this Agreement, including any official interpretations thereof.

(10) "SEC" means the United States Securities and Exchange Commission.

(11) "SID" means, at any time, a then-existing a state information depository, if any, as operated or designated as such by or on behalf of the State for the purposes referred to in the Rule. As of the date of this Agreement, there is no SID.

(12) "Unaudited Financial Statements" means the same as Audited Financial Statements, except that they shall not have been audited.

ARTICLE V
MISCELLANEOUS

Section 5.1 **Duties, Immunities and Liabilities of Trustee.** Articles IX of the Trust Agreements are hereby made applicable to this Agreement as if this Agreement were (solely for this purpose) contained in the Trust Agreements.

Section 5.2 **Counterparts.** This Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 5.3 **Choice of Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of California, provided that to the extent this Agreement addresses matters of federal securities laws, including the Rule, this Agreement shall be construed in accordance with such federal securities laws and official interpretations thereof.

IN WITNESS WHEREOF, the parties have each caused this Agreement to be executed by their duly authorized representatives, and the County has caused its corporate seal to be hereunto affixed and attested by an authorized representative, all as of the date first above written.

COUNTY OF STANISLAUS

By:____________________________
Authorized Officer

BNY WESTERN TRUST COMPANY

By:____________________________
Authorized Signatory

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Issuer :	County of Stanislaus
Name of Issues:	Certificates of Participation (2004 Capital Improvement Projects) Series 2004A and Certificates of Participation (2004 Capital Improvement Projects) Series 2004 B
Date of Issuance:	April 6, 2004

NOTICE IS HEREBY GIVEN that the County of Stanislaus (the "County") has not provided an Annual Report with respect to the above-named Certificates as required by a Continuing Disclosure Agreement relating to such Bonds. The County anticipates that the Annual Report will be filed by ___________.

Dated: ______________

COUNTY OF STANISLAUS

By:___________________________
Authorized Officer

EXHIBIT B

Nationally Recognized Municipal Securities Information Repositories approved by the Securities and Exchange Commission as of the date of the Agreement are listed in the SEC website at: http://www.sec.gov/info/municipal/nrmsir.htm

APPENDIX G

DTC AND THE BOOK-ENTRY SYSTEM

The information in this Appendix G concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and the County takes no responsibility for the completeness or accuracy thereof. The County cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Certificates, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Certificates, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Certificates, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Certificates. The Certificates 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 Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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, (respectively, "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.

Purchases of the Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates 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 Certificates 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 the Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Certificates 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 Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. The conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC 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. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to notify a Beneficial Owner, of any such notice and its content or effect will not affect the validity of the redemption of the Certificates called for redemption or of any other action premised on such notice. Redemption of portions of the Certificates by the County will reduce the outstanding principal amount of Certificates held by DTC. In such event, DTC will implement, through its book-entry system, a redemption by lot of interests in the Certificates held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then DTC Participants and Indirect Participants will implement a redemption of the Certificates for the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Trust Agreements and will not be conducted by the County or the Trustee.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Certificates 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 County or the Trustee, 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 Trustee, or the County, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the County or the Trustee, 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.

NONE OF THE COUNTY OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS WITH RESPECT TO THE PAYMENTS OR THE PROVIDING OF NOTICE TO DTC PARTICIPANTS, INDIRECT PARTICIPANTS OR BENEFICIAL OWNERS OR THE SELECTION OF BONDS FOR PREPAYMENT.

None of the County or the Trustee can give any assurances that DTC, DTC Participants, Indirect Participants or others will distribute payments of principal of, premium, if any, and interest on the Certificates paid to DTC or its nominee, as the registered Owner, or any redemption or other notice, to the Beneficial Owners or that they will do so on a timely basis or that DTC will serve and act in a manner described in this Official Statement.

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

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

In the event that the book-entry system is discontinued as described above, the requirements of the Indenture will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and none of the County or the Trustee take any responsibility for the accuracy thereof.

None of the County or the Underwriter can and do not give any assurances that DTC, the Participants or others will distribute payments of principal, interest or premium, if any, evidenced by the Certificates paid to DTC or its nominee as the registered owner, or will distribute any redemption notices or other notices, to the Beneficial Owners, or that they will do so on a timely basis or will serve and act in the manner described in this Official Statement. None of the County or the Underwriter are responsible or liable for the failure of DTC or any Participant to make any payment or give any notice to a Beneficial Owner with respect to the Certificates or an error or delay relating thereto.

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