

**NEW ISSUE
BOOK-ENTRY ONLY**

**RATING: S&P: "BBB-"
(See "Rating" herein)**

In the opinion of Stradling Yocca Carlson & Rauth a Professional Corporation, San Francisco, California, Bond Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming the accuracy of certain representation and compliance with certain covenants and requirements, as described herein, interest on the Series A Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series B Bonds is not exempt from federal income taxation. In the further opinion of Bond Counsel, interest on the Bonds is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein

\$3,250,000

**California Community College Financing Authority
Student Housing Revenue Bonds
(Feather River Community College District Project)
Series 2003A Tax-Exempt**

\$165,000

**California Community College Financing Authority
Student Housing Revenue Bonds
(Feather River Community College District Project)
Series 2003B Taxable**

Dated: Date of Delivery

Due: July 1, as shown below

The Series 2003A Tax-Exempt Bonds (the "Series A Bonds") and the Series 2003B Taxable Bonds (the "Series B Bonds," and together with the Series A Bonds, the "Bonds") are being issued by the California Community College Financing Authority (the "Authority") to (i) fund a loan to Feather River College Foundation, Inc., a California nonprofit public benefit corporation (the "Borrower"), to acquire and improve a 110-bed student housing facility, including the buildings, furniture, fixtures, and equipment therefor (the "Project"), located on property adjacent to the main campus of Feather River Community College District (the "College"), in Quincy, California, (ii) fund a debt service reserve fund for the Bonds, and (iii) pay a portion of the costs of issuing the Bonds.

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND THE PRINCIPAL THEREOF, PREMIUM, IF ANY, AND INTEREST THEREON ARE PAYABLE SOLELY FROM, AND SECURED IN ACCORDANCE WITH THEIR TERMS AND THE PROVISIONS OF THE INDENTURE SOLELY BY, THE REVENUES AND THE OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS DO NOT CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OF THE AUTHORITY OR ANY MEMBER OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY MEMBER OF THE AUTHORITY OR ANY OF THEIR INCOME OR RECEIPTS EXCEPT THE REVENUES AND THE OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE AUTHORITY, THE STATE OF CALIFORNIA (THE "STATE") OR ANY PUBLIC AGENCY OR POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON, THE BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE STATE OR ANY PUBLIC AGENCY THEREOF (OTHER THAN THE LIMITED OBLIGATION OF THE AUTHORITY).

The Bonds are issuable in the denominations of \$5,000 and any multiple thereof. The Bonds will bear interest from their date of delivery, payable semiannually on each January 1 and July 1, commencing January 1, 2004 (each, an "Interest Payment Date"). Principal of and premium, if any, on the Bonds are payable at the principal corporate trust office of U.S. Bank National Association, Los Angeles, California (the "Trustee") at maturity or upon redemption, upon surrender of the Bonds.

The Bonds will be issued as book-entry only bonds. The Bonds will be delivered as fully registered bonds, without coupons, and when delivered will be registered in the name of The Depository Trust Company ("DTC"), New York, New York, or its nominee. DTC will act as securities depository for the Bonds. Ownership interests in the Bonds may be purchased in book-entry form only, in authorized denominations, as described in this Official Statement. Upon delivery, the Bonds will be registered in the registry books of the Authority kept by the Trustee, as bond registrar, in the name of Cede & Co., as nominee of DTC an automated depository for securities and clearinghouse for securities transactions. Purchasers of the Bonds (the "Beneficial Owners") will not receive certificates representing their ownership of the Bonds. Principal of and interest on the Bonds will be payable at the principal corporate trust office of the Trustee upon the order of Cede & Co., which will remit such principal and interest to its DTC participants, which in turn will remit such principal and interest to the Beneficial Owners of the Bonds. See "THE BONDS — Book-Entry-Only System for Bonds" herein.

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

MATURITY SCHEDULE

**\$1,050,000 4.625% Series A Term Bonds Due July 1, 2013, Yield 4.625%
\$2,200,000 5.300% Series A Term Bonds Due July 1, 2022, Yield 5.500%**

\$165,000 Series B Serial Bonds

<u>Maturity (July 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2004	\$55,000	3.560%	3.560%
2005	\$55,000	3.820%	3.820%
2006	\$55,000	4.200%	4.200%

(Interest to accrue from the date of delivery)

See "BONDHOLDERS' RISKS" for a discussion of factors that should be considered, in addition to the other matters set forth herein, in evaluating the investment quality of the Bonds. This cover page contains information for quick reference only. It is not a summary of this issue. Investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

The Bonds are offered when, as, and if issued by the Authority and received by the Underwriter and are subject to prior sale and the approval of legality and certain other matters by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel, and to certain other conditions. Certain legal matters will be passed upon for the Authority by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, and for the Underwriter by Patton Boggs LLP, Washington, D.C. Delivery of the Bonds to DTC in New York, New York is expected on or about May 29, 2003.

George K. Baum & Company
Investment Bankers

Dated May 21, 2003

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, and, if given or made, such other information or representations should not be relied upon as having been authorized by the Authority, the Borrower, the District or the Underwriter. 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 Bonds by any person in any state in which it is unlawful for such person to make such offer, solicitation, or sale.

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

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

The information set forth herein has been obtained from the Authority, the Borrower, the District and other sources that are deemed to be reliable. The information herein is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create an implication that there has been no change in the affairs of the Borrower since the date hereof.

The Authority has provided only that information in this Official Statement that is contained under the heading "THE AUTHORITY" and, as to the Authority, under the heading "LITIGATION" (as it relates to the Authority). The Authority has not furnished or verified any other information or statements contained in this Official Statement and is not responsible for the sufficiency, completeness, or accuracy of such other information or statements.

Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as representations of fact. The information and expressions of opinions 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 matters described herein since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE BONDS HAVE NOT BEEN REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE.

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

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OFFICIAL STATEMENT

\$3,250,000

**California Community College Financing Authority
Student Housing Revenue Bonds
(Feather River Community College District Project)
Series 2003A Tax-Exempt**

\$165,000

**California Community College Financing Authority
Student Housing Revenue Bonds
(Feather River Community College District Project)
Series 2003B Taxable**

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and the Appendices hereto, provides certain information in connection with the sale by the California Community College Financing Authority (the "**Authority**") of \$3,250,000 in aggregate principal amount of its Student Housing Revenue Bonds (Feather River Community College District Project) Series 2003A Tax-Exempt (the "**Series A Bonds**"), and \$165,000 in aggregate principal amount of its Student Housing Revenue Bonds (Feather River Community College District Project) Series 2003B Taxable (the "**Series B Bonds**," and together with the Series A Bonds, the "**Bonds**") to be issued by the Authority pursuant to an Indenture of Trust (the "**Indenture**"), dated as of May 1, 2003, between the Authority and U.S. Bank National Association, as trustee (the "**Trustee**"), to (i) fund a loan to Feather River College Foundation, Inc., a California nonprofit public benefit corporation (the "**Borrower**"), to acquire and improve a 110-bed student housing facility, including the buildings, furniture, fixtures, and equipment therefor (the "**Project**") located on property adjacent to the main campus of the Feather River Community College (the "**College**"), operated by the Feather River Community College District (the "**District**") in Quincy, California, (ii) fund a debt service reserve fund for the Bonds, and (iii) pay a portion of the costs of issuing the Bonds. Definitions of certain terms used in this Official Statement are set forth in Appendix C hereto.

The Project is currently being used as an apartment house, and substantially all of the residents of the Project are students at the College. According to the District, the Project provides the best currently available source of housing for students on or near the campus. The Project is being acquired by the Borrower with proceeds of the Bonds, in part, to allow the District to gain control of the Project and to ensure that it will continue to be available to students at the College. The Project is approximately 25 years old, and is constructed of wood frame and siding. The Project is comprised of six buildings of one and two-bedroom apartments on a 13.5 acre site. One-bedroom units are of approximately 480 square feet and two-bedroom units are of approximately 636 square feet. The Project is currently owned by a private, for-profit owner who has owned the property since 1977. Proceeds of the Bonds will be lent to the Borrower for the purpose of acquiring the Project from the current owner for a purchase price of \$2,500,000, which is equal to the value given to the Project in an appraisal obtained by the Borrower. The Borrower also anticipates spending approximately \$250,000 in additional proceeds of the Bonds, together with approximately \$1,000,000 of additional funds provided by the District, for the purpose of undertaking the renovation and improvement of the Project. Engineering consultants to the District have advised the District that, upon the expenditure of such amounts for the renovation and improvement of the Project, the anticipated lifespan of the Project will be at least 25 years. In addition, the Project will be converted from 110 beds to approximately 150 beds by providing for double occupancy in all of the two-bedroom units.

Under an Occupancy Agreement, dated as of May 1, 2003 (the "Occupancy Agreement"), between the Borrower and the District, the District has agreed to make certain payments to the Borrower, which have been assigned to the Trustee to guarantee a level of cash flow (before expenses) from the Project equal to that which would be produced by an occupancy of not less than 90% for the beds in the Project which are available for students at the College (excluding units to be made available to resident assistants and other employees of the Borrower and assuming a minimum of two beds per bedroom). The obligation of the District to make such payments under the Occupancy Agreement is subject to annual appropriation, and the right of the District to terminate its obligation to appropriate and make payments in the event of a failure of the District to appropriate funds for such payments. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS-Occupancy Agreement" and "BONDHOLDERS' RISKS."

The Authority will lend the proceeds of the Bonds to the Borrower pursuant to a Loan Agreement (the "*Loan Agreement*"), dated as of May 1, 2003, among the Authority, the Trustee and the Borrower. The Borrower is obligated pursuant to the Loan Agreement to pay to the Authority such loan payments as will be sufficient to pay the principal of, premium, if any, and interest on the Bonds, as the same become due. Under the Loan Agreement, the Borrower has made a pledge of Gross Project Revenues to the repayment of the Loan. In addition, the Borrower is also obligated to pay all expenses of operating and maintaining the Project in good repair, to keep it properly insured, and to pay all taxes, assessments, and other charges levied or assessed against or with respect to the Project.

The obligations of the Borrower under the Loan Agreement will be secured by a Deed of Trust with Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing (the "*Deed of Trust*"), dated as of May 1, 2003, pursuant to which the Borrower will grant to the deed of trust trustee named therein for the benefit of the Authority a first security interest in and to the Borrower's interest in the Project, and will assign and pledge to the Authority the Borrower's interest in the leases, rents, issues, profits, revenues, income, receipts, moneys, royalties, rights, and benefits of and from the Project.

The Authority, pursuant to the Indenture, will assign and grant a security interest in all of its rights (but none of its obligations) under the Loan Agreement, the Occupancy Agreement and the Deed of Trust to the Trustee which, on behalf of the owners of the Bonds, will exercise all of the Authority's rights thereunder (except for the rights to certain fees of the Authority and indemnification). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein.

Notwithstanding any other provision set forth in this Official Statement or in the Bonds or in any other agreement or document executed in connection with or relating to the Bonds, the Bonds will be limited obligations of the Authority payable solely from the Revenues (consisting primarily of payments made by the Borrower under the Loan Agreement and any payments by the District under the Occupancy Agreement) and from assets pledged under the Indenture for the payment thereof. The liability of the Authority under this Official Statement and under the Bonds and under any other agreement or document executed in connection with or relating to the Bonds will be non-recourse to the Authority, limited solely to the funds pledged as security for the Bonds in accordance with the Indenture, and any other funds or property given as security for the Bonds by the Borrower or others; and the lien of any judgment shall be restricted solely thereto; and the Authority will have no other liability, legal, moral, contingent or otherwise, to the Trustee, any owner of the Bonds, the Borrower, or any other person, in connection with the Project, the Bonds, this Official Statement, or any other agreement or document executed in connection with or relating to the Bonds.

This Official Statement and the Appendices hereto contain brief descriptions of, among other matters, the Authority, the Borrower, the Project, the Bonds, the Loan Agreement, the Occupancy Agreement, the Deed of Trust and the Indenture. Such descriptions and information do not purport to be comprehensive or definitive. All references herein to the Loan Agreement, the Occupancy Agreement, the Deed of Trust and the Indenture (collectively, the "*Bond Documents*") are qualified in their entirety by reference to the complete text

of such documents, and references herein to the Bonds are qualified in their entirety to the forms of the Bonds included in the Indenture.

THE BONDS

General Description

The Series A Bonds will be issued in the aggregate principal amount of \$3,250,000, will be dated their date of delivery, and will mature on July 1 in the years and amounts set forth on the cover page hereof. The Series B Bonds will be issued in the aggregate principal amount of \$165,000, will be dated their date of delivery, and will mature on July 1 in the years and amounts set forth on the inside cover page hereof. The Bonds will bear interest at the rates per annum shown on the cover page of this Official Statement, payable on January 1, 2004, and semi-annually thereafter on January 1 and July 1 (collectively, the "*Interest Payment Dates*" and each, an "*Interest Payment Date*") until paid, in an amount equal to the interest accrued from the interest Payment Date next preceding the date of authentication of each Bond, unless such Bond is authenticated as of an Interest Payment Date for which interest has been paid or after the Record Date in respect thereof, in which case it will bear interest from said Interest Payment Date, or unless such Bond is authenticated prior to the Record Date for the first Interest Payment Date, December 15, 2003, in which event such Bond will bear interest from its date of delivery, or unless, as shown by the records of the Trustee, interest on the Bonds shall be in default, in which event such Bond will bear interest from the date to which interest has been paid in full on such Bond, or unless no interest shall have been paid on the Bonds, in which event such Bond will bear interest from its date of delivery.

Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered bonds without coupons in the denominations of \$5,000 and any multiple thereof ("*Authorized Denominations*").

Payment of the Bonds

The principal of, premium, if any, and interest on the Bonds is payable by the Trustee to DTC while the Bonds are held in book-entry form. Disbursement of such payments to DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC Participants. In the event that the Book-Entry Only system is no longer used with respect to the Bonds, the Beneficial Owners will become the registered owners of the Bonds and will be paid principal, premium, if any, and interest by the Trustee, all as described below. See Appendix G – "BOOK-ENTRY SYSTEM."

Principal of and premium, if any, on the Bonds are payable by check or draft at maturity or at a date set for prior redemption at the Office of the Trustee to the registered owner of each Bond upon presentation and surrender of the Bonds being paid or redeemed. Interest on each Bond will be paid by check or draft mailed to the person in whose name such Bond is registered, at his or her address as it appears on the registration books of the Authority maintained by the Trustee, as bond registrar, as of the close of business on the fifteenth (15th) day of the month (whether or not such day is a Business Day) next preceding each Interest Payment Date (the "*Regular Record Date*") for such payment, irrespective of any transfer or exchange of the Bond subsequent to a Regular Record Date and prior to such interest payment date, by the person in whose name the Bond is registered, unless the Authority shall have failed to pay the interest due on such Interest Payment Date. At the option of the registered owner of not less than One Million Dollars (\$1,000,000) in aggregate principal amount outstanding of Bonds issued under and secured by the Indenture, interest shall be paid by wire transfer in immediately available funds in accordance with written wire transfer instructions filed with the Trustee prior to the close of business on the Regular Record Date. Interest shall continue to be paid in accordance with such instructions, until revoked, except for the final payment of interest upon maturity or redemption prior to maturity which shall be paid only upon presentation of the Bond to the Trustee.

Bonds Are Limited Obligations

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY AND THE PRINCIPAL THEREOF, PREMIUM, IF ANY, AND INTEREST THEREON ARE PAYABLE SOLELY FROM, AND SECURED IN ACCORDANCE WITH THEIR TERMS AND THE PROVISIONS OF THE INDENTURE SOLELY BY, THE REVENUES AND THE OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. THE BONDS DO NOT CONSTITUTE A CHARGE AGAINST THE GENERAL CREDIT OF THE AUTHORITY OR ANY MEMBER OF THE AUTHORITY AND ARE NOT SECURED BY A LEGAL OR EQUITABLE PLEDGE OF, OR CHARGE OR LIEN UPON, ANY PROPERTY OF THE AUTHORITY OR ANY MEMBER OF THE AUTHORITY OR ANY OF THEIR INCOME OR RECEIPTS EXCEPT THE REVENUES AND THE OTHER AMOUNTS PLEDGED THEREFOR UNDER THE INDENTURE. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY PUBLIC AGENCY OR POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. THE AUTHORITY HAS NO TAXING POWER. NEITHER THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS CONSTITUTES A DEBT, LIABILITY OR OBLIGATION OF THE STATE OR ANY PUBLIC AGENCY OR POLITICAL SUBDIVISION THEREOF (OTHER THAN THE LIMITED OBLIGATION OF THE AUTHORITY).

Redemption

Optional Redemption. The Series A Bonds maturing by their terms on July 1, 2022, are subject to optional redemption by the Authority on any date on or after July 1, 2013 to their respective stated maturity dates, as a whole or in part in such principal amounts, from such maturity dates, and from such series as selected by the Authority or the Borrower, from funds derived by the Authority or the Borrower from any lawful source and deposited with the Trustee not less than five days prior to the date of redemption, upon mailed notice as provided in the Indenture, at the following redemption prices (expressed as a percentage of the principal amount of the Series A Bonds to be redeemed), together with interest accrued thereon to the date fixed for redemption:

<u>Redemption Periods</u>	<u>Redemption Price</u>
July 1, 2013 through June 30, 2014	101%
July 1, 2014 and thereafter	100

Mandatory Sinking Fund Redemption. Mandatory sinking fund redemption payments are hereby established for the mandatory redemption and payment of the Series A Term Bonds maturing on July 1, 2013 which payments shall become due on the dates and in the amounts set forth in the following schedule (except that if any Series A Term Bonds have been otherwise redeemed in part, the amounts of such mandatory sinking fund payments shall be reduced by the principal amount of all such Series A Term Bonds so otherwise redeemed), namely:

Series A Term Bonds Due July 1, 2013

<u>Date</u> <u>(July 1)</u>	<u>Amount</u>	
2005	\$ 30,000	
2006	40,000	
2007	110,000	
2008	120,000	
2009	135,000	
2010	145,000	
2011	150,000	
2012	160,000	
2013	160,000	(maturity)

Mandatory sinking fund redemption payments are hereby established for the mandatory redemption and payment of the Series A Term Bonds maturing on July 1, 2022 which payments shall become due on the dates and in the amounts set forth in the following schedule (except that if any Series A Term Bonds have been otherwise redeemed in part, the amounts of such mandatory sinking fund payments shall be reduced by the principal amount of all such Series A Term Bonds so otherwise redeemed), namely:

Series A Term Bonds Due July 1, 2022

<u>Date</u> <u>(July 1)</u>	<u>Amount</u>	
2014	\$170,000	
2015	175,000	
2016	185,000	
2017	195,000	
2018	210,000	
2019	220,000	
2020	230,000	
2021	240,000	
2022	575,000	(maturity)

Extraordinary Redemption.

The Bonds are subject to redemption in whole or in part (in inverse order of maturity and pro rata amongst Series) on any Interest Payment Date, at a price equal to the principal amount of Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, without premium, upon prepayment of the Loan in whole or in part, in an amount as nearly equal as possible to, but not exceeding, the amount of any Net Proceeds of insurance or condemnation awards not used to repair or replace the Project.

The Bonds are also subject to redemption in whole or in part (in inverse order of maturity and pro rata amongst series) on any date at a price equal to the principal amount of Bonds to be redeemed, plus interest accrued thereon to the date fixed for redemption, without premium, upon acceleration of the Loan in whole following an Acceleration Default.

Partial Redemption. If less than all of a maturity of a series of Bonds is to be redeemed, other than pursuant to mandatory sinking fund redemption, Bonds shall be selected by the Borrower for redemption, or if not so selected, shall be redeemed in inverse order of maturity. If less than all the Bonds of a maturity are to be redeemed the Trustee shall select the Bonds within such maturity to be redeemed by lot, in whole multiples of Authorized Denominations. In no event shall bonds be redeemed in amounts other than whole multiples of minimum Authorized Denominations. For purposes of an extraordinary redemption, the Trustee may round down to the nearest Authorized Denomination. For purposes of redeeming Bonds in denominations greater

than minimum Authorized Denominations, the Trustee shall assign to such Bonds a distinctive number for each such principal amount and, in selecting Bonds for redemption by lot, shall treat such amounts as separate bonds. The Trustee shall promptly notify the Authority and the Borrower in writing of the numbers of the Bonds selected for redemption.

Notice of Redemption; Cessation of Interest. Notice of redemption will be mailed by the Trustee by first class mail (postage prepaid) not less than 30 days nor more than 60 days prior to the date fixed for redemption (or in the case of an extraordinary redemption, not less than 5 days before the redemption date) to the Securities Depositories and Information Services and to the registered owner of record of each Bond to be redeemed at the address shown on the registration books at the close of business on the fifth (5th) day preceding the date of the mailing; provided, however, that failure to give such notice by mailing to any Owner of Bonds or any defect therein will not affect the validity of any proceedings for the redemption of any other Bonds for which notice shall have been properly given. Such notice will state that payment of the applicable redemption price plus accrued interest to the date fixed for redemption will be made upon presentation and surrender of the Bonds to be redeemed and that on the redemption date, the redemption price will become due and payable upon each Bond to be redeemed and that interest thereon will cease to accrue on and after such date, provided collected funds for the redemption of the Bonds to be redeemed are on deposit with the Trustee at the place of, and the time for, payment. Any notice mailed as provided in the Indenture will be conclusively presumed to have been duly given, whether or not the Owner of such Bonds actually receives such notice. Upon the written request of the Borrower, any notice of any optional redemption of Bonds to be redeemed pursuant to the provisions hereinabove described under the subheading "*Optional Redemption*" may contain a statement to the effect that the redemption of such Bonds is conditioned upon the receipt by the Trustee of amounts equal to the redemption price of the Bonds to be redeemed on or before the redemption date, and, if a notice of optional redemption contains such statement, such optional redemption will be so conditioned.

Notice of redemption having been given as described above, the Bonds or portions thereof designated for redemption will become and be due and payable on the date fixed for redemption at the redemption price provided for in the Indenture, provided funds for the payment of such redemption price are on deposit at the place of payment at that time, and, unless the Authority defaults in the payment of the principal thereof or premium, if any, and interest thereon, such Bonds or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Bonds are presented and surrendered for payment on such date. If any Bond or portion thereof called for redemption is not so paid upon presentation and surrender thereof for redemption, such Bond or portion thereof will continue to bear interest at the rate set forth therein until paid or until due provision is made for the payment thereof.

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Pledge and Assignment of Revenues

Pursuant to the Indenture, all of the Revenues and any other amounts held in any fund or account established pursuant to the Indenture (other than the Rebate Fund) are irrevocably pledged by the Authority to the punctual payment of the principal of, premium, if any, and interest on the Bonds, subject to the provisions of this Indenture permitting the application of such Revenues for the purposes and on the terms and conditions set forth herein.

The Authority will transfer in trust, grant a security interest in, and assign to the Trustee, for the benefit of the holders from time to time of the Bonds, all of its right, title and interest in (a) the Revenues, (b) all Gross Project Revenues, (c) amounts on deposit in the Reserve Fund, the Surplus Fund, the Repair and Replacement Fund, the Gross Project Revenue Fund and the Bond Fund, (d) the Deed of Trust, (e) the Occupancy Agreement and (f) the Loan Agreement (except for the right of the Authority to receive fees, expenses and indemnification and its rights of enforcement with respect to such fees, expenses and indemnification thereunder).

All Revenues and all amounts on deposit in the Bond Fund, the Surplus Fund, the Repair and Replacement Fund, and the Reserve Fund shall be held in trust for the benefit of the holders from time to time of the Bonds, but shall nevertheless be disbursed, allocated and applied solely for the uses and purposes set forth in the Indenture.

The term "Revenues" means all amounts pledged under the Indenture to the payment of principal of, premium, if any, and interest on the Bonds, consisting of the following: (i) any portion of the net proceeds of the Bonds deposited with the Trustee; (ii) any income earned on investments of the funds and accounts held under the Indenture; (iii) proceeds derived from the exercise of any remedies provided for under the Deed of Trust; (iv) proceeds derived from the exercise of any remedies under the Occupancy Agreement; and (v) at all times while any Bonds are Outstanding, (A) any repayments of the Loan required or permitted to be made by the Borrower pursuant to the Loan Agreement, (B) amounts drawn by the Trustee from the Reserve Fund, the Surplus Fund, or the Repair and Replacement Fund for transfer to the Bond Fund for payment of the Bonds, (C) all Net Proceeds including insurance proceeds and condemnation awards as set forth in the Loan Agreement and (D) any Gross Project Revenues (including those amounts received under the Occupancy Agreement) received by the Trustee pursuant to the Loan Agreement; but such term shall not include payments to the United States for rebate obligations, the fees and expenses of the Authority or the fees and expenses of the Trustee.

The Series A Bonds and the Series B Bonds will be secured by the Revenues on a parity with each other and each owner thereof will have the same rights upon an Event of Default as the owner of any other Bonds executed and delivered under the Indenture.

Occupancy Agreement

The Borrower and the District have entered into an agreement regarding the operation of the Feather River Apartments, dated as of May 1, 2003 (as previously defined, the "Occupancy Agreement"). The Occupancy Agreement provides that it may be terminated at any time upon mutual written agreement of both parties. Subject to the rights of the District to terminate its obligations to make payments respecting the occupancy guarantee in the event the District does not appropriate funds for such payment, so long as any of the Bonds are outstanding, the Occupancy Agreement may not terminate earlier than June 30, 2030, unless prior to effecting any such termination the Borrower shall have first confirmed in writing with each rating agency then maintaining a rating with respect to the Bonds that the rating on the Bonds then maintained by each of such rating agencies will not be downgraded as a result of any such termination. If the District fails to appropriate amounts owed under the Occupancy Agreement in any Fiscal Year, the District has the option (but not the requirement) of terminating its payments and appropriation obligations under the Occupancy Agreement, and the District would have no further responsibility for payments thereunder. See "BONDHOLDERS' RISKS."

The Occupancy Agreement requires that the Borrower make the units in the Project available for the exclusive use of the College's students during each fall and spring semester. Not later than five business days after the second full calendar week of each semester (each, an "Occupancy Measurement Date"), the Borrower is obligated to notify the District of the number of beds in the Project which have been made available for students of the College, and the number, if any, which were not rented as of the Occupancy Measurement Date. Under the Occupancy Agreement, the District has agreed to pay certain amounts ("Occupancy Guarantee Payments") to the Borrower to produce the level of cash flow (before expenses) which would be produced by a 90% occupancy level for beds in the Project which are made available for students of the College (excluding beds in units reserved for resident assistants and other employees of the Borrower, up to a maximum of five units and assuming a minimum of two beds per bedroom). In the event that the Project does not maintain a 90% occupancy as of the Occupancy Measurement Date, the District is obligated to pay to the Borrower such Occupancy Guarantee Payments by the date which is 30 days after notice to such effect is received from the Borrower. Occupancy Guarantee Payments are required to be paid by the District from all amounts legally available to the District; provided, however, that in each semester the obligation of the District

to pay Deficiency Rents shall be subject to annual appropriation by the District. The District has agreed to include its annual budget amounts deemed sufficient to provide funds sufficient to make all anticipated Occupancy Guarantee Payments.

In addition, under the Occupancy Agreement, the District has agreed to pay to the Trustee for deposit in the Repair and Replacement Fund, an amount equal to \$1,000,000 from funds made available to the District by the federal government pursuant to the Secure Rural Schools and Community Self-Determination Act of 2000, which amount the Borrower is obligated to use for the purpose of undertaking certain renovations and improvements to the Project after its acquisition by the Borrower. As more fully described in the Occupancy Agreement, the District is obligated to make such transfers in four annual payments of \$250,000 each, with the first payment to occur on July 1, 2003. The Occupancy Agreement provides for subsequent annual payments of \$250,000 by the District on July 1 of 2004, 2005 and 2006. Engineering consultants to the Borrower have indicated their view that such improvements will extend the useful life of the Project to approximately twenty-five years from the date of issuance of the Bonds.

For additional information concerning the Occupancy Agreement, see a copy of the Occupancy Agreement which is attached hereto as Appendix E.

Limitation of Liability of the Authority

The Bonds are limited obligations of the Authority and the principal thereof, premium, if any, and interest thereon are payable solely from, and secured in accordance with their terms and the provisions of the Indenture solely by, the funds and security provided under the Loan Agreement, the Occupancy Agreement and the Indenture. The Bonds do not constitute a charge against the credit of the Authority or any Member of the Authority (including the District), and are not secured by a legal or equitable pledge of, or charge or lien upon, any property of the Authority or any Member of the Authority or any of their income or receipts excepts the funds and security provided under the Loan Agreement and the Indenture. Neither the faith and credit nor the taxing power of the State or any public agency or political subdivision thereof or any Member of the Authority is pledged to the payment of principal of, premium, if any, or interest on the Bonds. The Authority has no taxing power.

THE BONDS DO NOT CONSTITUTE A DEBT OR LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF OTHER THAN THE AUTHORITY BUT SHALL BE PAYABLE SOLELY FROM THE FUNDS AND SECURITY PROVIDED THEREFOR BY THE BORROWER. NEITHER THE STATE, THE AUTHORITY NOR ANY MEMBER OF THE AUTHORITY (INCLUDING THE DISTRICT) SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF, PREMIUM (IF ANY) OR THE INTEREST ON THE BONDS, EXCEPT FROM THE FUNDS AND SECURITY PROVIDED UNDER THE LOAN AGREEMENT AND THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY OR ANY MEMBER OF THE AUTHORITY, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM (IF ANY) OR INTEREST ON THE BONDS. THE ISSUANCE OF THE BONDS SHALL NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

Reserve Fund

Under the Indenture, a Reserve Fund has been created and will be funded from proceeds of the Bonds with an amount equal to the Reserve Fund Requirement for the Bonds. The Reserve Fund will be used to pay principal of, premium, if any, and interest on the Bonds and on any Additional Bonds to the extent there are insufficient funds on deposit in the Bond Fund on the date such payment is due. See "SUMMARY OF

PRINCIPAL FINANCING DOCUMENTS — THE INDENTURE — Reserve Fund” in Appendix C hereto. If at any time the amount on deposit in the Reserve Fund is less than the Reserve Fund Requirement, the Gross Project Revenues will be used to restore the Reserve Fund to the Reserve Fund Requirement after the required deposits to the Operation and Maintenance Fund and the Bond Fund. See “– Pledge of Gross Project Revenues: Flow of Funds” below.

Pledge of Gross Project Revenues; Flow of Funds

Pledge of Gross Project Revenues. The Borrower agrees that, so long as any amounts due under the Loan Agreement remain unpaid, all of the Gross Project Revenues shall be deposited upon receipt by the Borrower (but in any event within five business days of receipt) in the Gross Project Revenue Fund which the Borrower shall establish and maintain with the Trustee. The Borrower pledges, and to the extent permitted by law grants a security interest to the Trustee in, the Gross Project Revenue Fund and all of the Gross Project Revenues to secure the payment of the Loan and the performance by the Borrower of its other obligations under the Loan Agreement.

“Gross Project Revenues” means generally all receipts, revenues, income and other moneys received by or on behalf of the Borrower and derived from the ownership or operation of the Project, including all amounts paid by the District pursuant to the Occupancy Agreement, interest earnings on the Reserve Fund, the Surplus Fund, the Gross Project Revenue Fund and the Repair and Replacement Fund, and all rights to receive the same, whether in the form of accounts, accounts receivable, contract rights or other rights, and the proceeds of such rights, whether now owned or held or hereafter coming into existence and including rental interruption insurance proceeds, but not including insurance and condemnation proceeds (other than rental interruption insurance proceeds) with respect to the Project or any portion thereof or proceeds received upon the foreclosure sale of the Project.

“Expenses of Operating and Maintaining the Project” means generally the reasonable expenses, paid or accrued, of operation, maintenance and current repair of the Project, as calculated in accordance with generally accepted accounting principles, and include, without limiting the generality of the foregoing, salaries, wages, employee benefits, payroll taxes, legal fees, cost of materials and supplies, costs of utilities, licenses, insurance, taxes, advertising, routine repairs, renewals, replacements and alterations occurring in the usual course of business, fees and expenses of the Trustee or the Borrower incurred in connection with calculations made pursuant to the Indenture, rebate obligations owed pursuant to the Indenture, costs of billings and collections, and costs of audits, but do not include (i) any payments on the Loan or other Indebtedness, (ii) allowance for depreciation, amortization or renewals or replacements of capital assets (except as provided above) of the Project, (iii) deposits to the Repair and Replacement Fund as required by the Loan Agreement, or (iv) payments to the Authority or the Trustee for certain extraordinary fees and costs under the Loan Agreement.

Flow of Funds. Gross Project Revenues shall be deposited by the Borrower in the Gross Project Revenue Fund and, on or before the 15th day of each month, commencing July 15, 2003, the Trustee shall apply the Gross Project Revenues (which funds, after payment of Expenses of Operating and Maintaining the Project, shall thereafter be designated the Net Project Revenues) in the following order of priority:

Operation and Maintenance Fund. The Trustee will deposit into the Operation and Maintenance Fund, the greater of (A) an amount necessary to increase the balance on deposit therein to one-sixth (1/6) of the Expenses of Operating and Maintaining the Project budgeted for the then current Fiscal Year, as set forth in the then current Operating Budget for the Project, (B) Expenses of Operating and Maintaining the Project budgeted for such year in the current Operating Budget and then currently due, and (C) the actual Expenses of Operating and Maintaining the Project for such month as certified in writing by the Borrower to the Trustee. The Trustee shall have no responsibility for reviewing the Operating Budget and may rely conclusively on the certification of the Borrower as to any matters relating to the Operating Budget.

Bond Fund. The Trustee will deposit in the Bond Fund an amount equal to (A) 1/6 of the interest due on the next Interest Payment Date plus (B) 1/12 of the principal due on the next Principal Payment Date; provided that prior to the first Principal Payment Date the Trustee shall deposit in the Bond Fund an amount equal to the amount set forth for such month in the Loan Agreement.

Reserve Fund. The Trustee will deposit in the Reserve Fund an amount, if any, necessary to restore the Reserve Fund to the Reserve Fund Requirement.

Repair and Replacement Fund. Effective Fiscal Year 2003-04, the Trustee shall deposit in the Repair and Replacement Fund an amount equal to one-twelfth (1/12th) of the Repair and Replacement Fund Requirement for the Fiscal Year. The Repair and Replacement Fund Requirement for Fiscal Year 2003-04 is \$28,000, and the Repair and Replacement Fund Requirement for the succeeding Fiscal Year and each Fiscal Year thereafter shall be an amount equal to 103% of the preceding Fiscal Year's Repair and Replacement Fund Requirement.

Surplus Fund. The Trustee will deposit any remaining Net Project Revenues for any month in the Surplus Fund and will apply amounts on deposit in the Surplus Fund as described under the caption "Surplus Fund" below.

Operation and Maintenance Fund

Amounts in the Operation and Maintenance Fund, if any, may be used and withdrawn by the Borrower at any time for any lawful purpose consistent with the Operating Budget for the Project, except that in the event that (i) the Borrower is delinquent in the repayment of the Loan, or (ii) an Event of Default under the Loan Agreement has occurred which has not been cured, the Trustee may, unless and until such delinquency and/or default is cured in accordance with applicable cure periods, thereafter exercise its rights as a secured party in the Operation and Maintenance Fund. During any such period, all deposits of Gross Project Revenues to the Operations and Maintenance Fund will be made after the payment to the Bond Fund.

Repair and Replacement Fund

An amount equal to \$1,000,000 is required to be deposited by the District (in four annual payments of \$250,000 each, commencing July 1, 2003, and then on July 1 of each of the three succeeding Fiscal years) into the Repair and Replacement Fund for the purpose of undertaking certain renovations and improvements to the Project, as set forth in the Occupancy Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS-Occupancy Agreement." Thereafter, amounts shall be deposited into the Repair and Replacement Fund as provided in the flow of funds above (both from amounts in the Gross Project Revenue Fund and from amounts in the Surplus Fund). Moneys in the Repair and Replacement Fund shall be expended and used only for capital costs, including structural repairs to and reroofing of the Project, repair and replacement of major mechanical components of the project, the repair or replacement of equipment, furniture and fixtures used in the Project and any other capital costs and extraordinary maintenance expenses of the Project, for the purpose of maintaining the Project (collectively, "***Repair and Replacement Costs***").

Amounts in the Repair and Replacement Fund will be used to pay principal of and interest on the Bonds and on any Additional Bonds to the extent there are insufficient funds on deposit in the Bond Fund, the Reserve Fund and the Surplus Fund on the date such payment is due. See "SUMMARY OF PRINCIPAL FINANCING DOCUMENTS — THE INDENTURE — Repair and Replacement Fund" in Appendix C hereto.

Surplus Fund

Amounts on deposit in the Surplus fund shall be used in the following order of priority at the following times in the amounts set forth below.

Bond Fund. If there are insufficient funds on deposit in the Bond Fund on the day payment of the principal of and interest on the Bonds is due, then an amount necessary to make up insufficiencies in the Bond Fund will be transferred to the Bond Fund from the Surplus Fund by the Trustee.

Fund Transfers. If moneys in the Gross Project Revenue Fund are insufficient to fully fund the deposits contemplated to be deposited in the Operation and Maintenance Fund, the Bond Fund, the Reserve Fund and the Repair and Replacement Fund by the 15th day of any month, then the Trustee shall, on the 15th day of such month, use amounts on deposit in the Surplus Fund to cover such insufficiencies (in the order of priority set forth in the Loan Agreement).

Other Transfers. If (or when) there are sufficient funds on deposit in the Bond Fund to pay debt service on the Bonds and any required transfers have been made as described above, then the following transfers shall be made by the 120th day after the end of the Borrower's Fiscal Year. The Trustee shall transfer such funds upon a Written Request of the Borrower, in any combination of amounts, to (i) the Repair and Replacement Fund (to be applied to the payment of the Repair and Replacement Reserve costs identified by the Borrower in the related Written Certificate of the Borrower) and (ii) the Redemption Account of the Bond Fund (to be applied to prepay the Loan and optionally redeem the Series A Bonds in accordance with the related Written Request of the Borrower). Notwithstanding anything to the contrary contained in the preceding sentences, in the event that the Net Project Revenues for such Fiscal Year exceed 150% of the Debt Service due on the Bonds Outstanding for such period (such excess amount hereby being referred to as, the "Discretionary Surplus Net Project Revenues") the Trustee shall transfer to the Borrower (unless given Written Direction to the contrary by the Borrower) such Discretionary Surplus Net Project Revenues to be used and applied according to the discretion of the Borrower, to the extent not inconsistent with the covenants relating to maintaining the Tax-Exempt status of the Tax-Exempt Bonds.

Deed of Trust

As security for the obligations of the Borrower under the Loan Agreement, the Borrower will execute and deliver the Deed of Trust pursuant to which the Borrower will grant to the deed of trust trustee named therein for the benefit of the Authority a first security interest in and to the Borrower's interest in the Project and the Project Site and will assign and pledge, to the deed of trust trustee for the benefit of the Authority the Borrower's interest in the leases, rents, issues, profits, revenues, income, receipts, moneys, royalties, rights, and benefits of and from the Project. Property may be released from the Deed of Trust without bondholder consent under the circumstances described in the Deed of Trust. The Deed of Trust provides that property may be released thereunder under certain conditions, including a reconfirmation of the then existing rating on the Bonds by each Rating Agency then rating the Bonds.

Title and Property Insurance

A mortgagee's title insurance policy will be delivered in the amount of not less than the original principal amount of the Bonds to insure that the Trustee will have a valid first priority security interest in and to the Borrower's interest in and to the Project Site, subject only to the standard exclusions from the coverage of such policy. The Borrower has agreed in the Loan Agreement to keep the Project fully insured against fire and other casualties and to maintain certain specified amounts of liability and business interruption insurance. See "SUMMARY OF PRINCIPAL FINANCING DOCUMENTS — THE LOAN AGREEMENT — Insurance" in Appendix C hereto.

Financial Covenants

In the Loan Agreement, the Borrower has covenanted to charge in each Fiscal Year, such rates, fees, and charges for its facilities and services as will be sufficient to produce the Coverage Requirement. The term "***Coverage Requirement***" means, for any period of computation, the requirement that the ratio of (i) Net

Project Revenues for such period (including interest earnings accruing during such period) to (ii) the debt service on outstanding debt for such period. shall be equal to 1.20 or greater.

Failure of the Borrower to maintain the Coverage Requirement shall not constitute an Event of Default under the Loan Agreement if Borrower shall, subject to existing law, (i) immediately engage a Financial Consultant to undertake a review of rents charged for the units in the Project, which review shall be set forth in a written report to be provided (within 30 days of delivery of the Borrower's Certificate identifying the coverage failure) to the Authority, the Trustee and each Rating Agency, for the purpose of determining such adjustments to rents as shall be necessary to thereafter generate sufficient Gross Project Revenues to allow the Borrower to satisfy the Coverage Requirement and (ii) undertake within sixty (60) days of completion of said rental review any adjustments recommended in said rental review and permitted by local, State and federal law; and if the coverage ratio does not fall below 1.00 in the then current month.

The Trustee shall notify the Borrower in writing of any withdrawals of moneys from the Reserve Fund within three (3) Business Days of such withdrawal. Within seven (7) Business Days after the Borrower receives notice of such withdrawal, the Borrower shall engage a Financial Consultant to undertake a review of rents then charged for units in the Project in order to determine such adjustments to rents as shall be necessary to thereafter generate sufficient Gross Project Revenues to allow the Borrower to (i) make payments of principal of and interest on the Bonds as due, (ii) replenish the amount or amounts withdrawn from the Reserve Fund, and (iii) make the deposits required pursuant to the Loan Agreement. The aforementioned rental review shall be set forth in a written report to be provided within 30 days of the withdrawal from the Reserve Fund to the Authority, each Rating Agency and the Trustee. The Borrower shall implement, to the extent such action does not jeopardize the Tax-Exempt status of the Series A Bonds, any rental adjustments suggested by the review described in the previous sentence and permitted by local, State and federal law and the Leases within sixty (60) days from the date moneys were withdrawn from the Reserve Fund for such purposes.

The Borrower further covenants and agrees that it shall, from time to time as often as necessary and to the extent permitted by law, revise the rates, fees, and charges aforesaid in such manner as may be necessary or proper so that its Net Project Revenues will be sufficient to meet the requirements of the Loan Agreement, and further, that it will, in order to comply with the provisions of the Loan Agreement, take all action within its power to obtain approvals of any regulatory or supervisory authority to implement any rates, fees, and charges required by the Loan Agreement.

Enforceability of Remedies

The realization of value from the real and personal property comprising the Project and from the other security for the Bonds upon any default will depend upon the exercise of various remedies specified by the Bond Documents. These and other remedies may require judicial actions, which are often subject to discretion and delay and which may be difficult to pursue. See "BONDHOLDERS' RISKS — Enforceability of Remedies" and "BONDHOLDERS' RISKS — Pledge, Assignment, and Grant of Security Interest in Future Revenues" herein.

Prohibition of Additional Bonds

The Loan Agreement provides that the Borrower shall not enter into any contract, bond or other form of debt instrument that is secured by Gross Project Revenues.

Operation of Business; Noncompetition with Project.

The Borrower covenanted in the Loan Agreement to continue its business in a business-like manner and to pursue all corporate opportunities to the Borrower. The Borrower further covenants that it will at no time during the term of the Loan Agreement acquire, construct, fund, invest in or in any manner support or

promote any housing project within the geographical boundaries of the District or which might in any way compete for tenants with the Project, unless the Borrower shall provide prior written notice of any of the foregoing events to each Rating Agency then maintaining a rating on the Bonds and the Borrower shall confirm in writing with each such Rating Agency prior to undertaking any action in furtherance of housing projects of the nature contemplated in this paragraph that the then rating on the Bonds maintained by such Rating Agency will not be downgraded as a result of such action.

DEBT SERVICE SCHEDULE

The following table sets forth the annual debt service amounts for the Bonds.

**COMBINED
DEBT SERVICE SCHEDULE**

Date	Principal	Interest	Debt Service	Fiscal Year Debt Service	Fiscal Year Debt Service Reserve Fund	Net Fiscal Year Debt Service
5/29/2003						
1/1/2004						
7/1/2004	55,000	101,012.99	101,012.99	241,778.74	(16,580.97)	225,217.77
1/1/2005		85,765.75	140,765.75			
7/1/2005	85,000	84,786.75	84,786.75	254,573.50	(15,191.82)	239,381.68
1/1/2008		83,042.50	83,042.50			
7/1/2006	95,000	83,042.50	178,042.50	261,085.00	(15,191.82)	245,893.18
1/1/2007		80,982.50	80,982.50			
7/1/2007	110,000	80,982.50	190,982.50	271,925.00	(15,191.82)	256,733.18
1/1/2008		78,418.75	78,418.75			
7/1/2008	120,000	78,418.75	198,418.75	276,837.50	(15,191.82)	261,645.68
1/1/2009		75,643.75	75,643.75			
7/1/2009	135,000	75,643.75	210,643.75	286,287.50	(15,191.82)	271,095.68
1/1/2010		72,521.88	72,521.88			
7/1/2010	145,000	72,521.88	217,521.88	290,043.75	(15,191.82)	274,851.93
1/1/2011		69,168.75	69,168.75			
7/1/2011	150,000	69,168.75	219,168.75	288,337.50	(15,191.82)	273,145.68
1/1/2012		65,700.00	65,700.00			
7/1/2012	160,000	65,700.00	225,700.00	291,400.00	(15,191.82)	276,208.18
1/1/2013		62,000.00	62,000.00			
7/1/2013	160,000	62,000.00	222,000.00	284,000.00	(15,191.82)	268,808.18
1/1/2014		58,300.00	58,300.00			
7/1/2014	170,000	58,300.00	226,300.00	286,600.00	(15,191.82)	271,408.18
1/1/2015		53,795.00	53,795.00			
7/1/2015	175,000	53,795.00	228,795.00	282,590.00	(15,191.82)	267,398.18
1/1/2016		49,157.50	49,157.50			
7/1/2016	185,000	49,157.50	234,157.50	283,315.00	(15,191.82)	268,123.18
1/1/2017		44,255.00	44,255.00			
7/1/2017	195,000	44,255.00	239,255.00	283,510.00	(15,191.82)	268,318.18
1/1/2018		39,087.50	39,087.50			
7/1/2018	210,000	39,087.50	249,087.50	288,175.00	(15,191.82)	272,983.18
1/1/2019		33,522.50	33,522.50			
7/1/2019	220,000	33,522.50	253,522.50	287,045.00	(15,191.82)	271,853.18
1/1/2020		27,692.50	27,692.50			
7/1/2020	230,000	27,692.50	257,692.50	285,385.00	(15,191.82)	270,193.18
1/1/2021		21,597.50	21,597.50			
7/1/2021	240,000	21,597.50	261,597.50	283,195.00	(15,191.82)	268,003.18
1/1/2022		15,237.50	15,237.50			
7/1/2022	575,000	15,237.50	590,237.50	605,475.00	(335,019.82)	270,455.38

ESTIMATED SOURCES AND USES OF FUNDS

The schedule below contains the estimated sources and uses of funds resulting from the sale of the Bonds:

SOURCES OF FUNDS:	SERIES A	SERIES B	TOTAL
Par Amount of Bonds	\$3,250,000.00	\$165,000.00	\$3,415,000.00
Less: Original Issue Discount	(51,722.00)	---	(51,722.00)
TOTAL SOURCES OF FUNDS	<u>\$3,198,278.00</u>	<u>\$165,000.00</u>	<u>\$3,363,278.00</u>
USES OF FUNDS:			
Deposit to Project Fund ⁽¹⁾	\$2,814,484.64	--	\$2,814,484.64
Deposit to Reserve Fund ⁽²⁾	319,827.80	--	319,827.80
Costs of Issuance ⁽³⁾	63,965.56	165,000.00	228,965.56
TOTAL USES OF FUNDS	<u>\$3,198,278.00</u>	<u>\$165,000.00</u>	<u>\$3,363,278.00</u>

⁽¹⁾ Equal to the purchase price of the Project (\$2,500,000), plus approximately \$44,385.98 of miscellaneous real estate closing costs and \$270,098.66 of other redevelopment costs. In addition to such proceeds of the Bonds, an amount equal to \$1,000,000 (in four annual payments of \$250,000, commencing July 1, 2003) is required to be deposited by the District into the Repair and Replacement Fund, as set forth in the Occupancy Agreement, for the purpose of funding certain renovations and improvements to the Project after its acquisition by the Borrower.

⁽²⁾ Equal to the Reserve Fund Requirement for the Bonds.

⁽³⁾ Includes underwriter's discount, bond counsel fees and other legal fees, and other costs of issuance of the Bonds.

THE AUTHORITY

The Authority is a public entity organized pursuant to a Joint Exercise of Powers Agreement, originally executed as of May 18, 1995, and amended as of May 14, 1997 and May 7, 2003, among a number of California community college districts pursuant to the provisions of the Joint Exercise of Powers Act (the "Act") contained in Chapter 5 of Division 7 of Title I (commencing with Section 6500) of the California Government Code. Pursuant to the Act and the Joint Powers Agreement, the Authority is authorized to issue revenue bonds and loan the proceeds thereof to assist nonprofit corporations in the financing of student housing projects for the benefit of California community college districts that are Members of the Authority, including the District.

THE BORROWER

General

The Borrower is a nonprofit public benefit corporation formed in June 30, 1988, under the laws of the State of California. The Borrower received a determination letter from the Internal Revenue Service on March 10, 1989, indicating that it is an organization exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code (the "Code"). The Borrower is organized and operated exclusively for charitable purposes. Its articles of incorporation state that the specific purpose of the Borrower is to support the District and its programs; serve as an advisory body to the District on community educational needs and programs; foster better public understanding of the District and secure wider participation in its cultural and community

activities; encourage potential students to attend the District; raise and implement scholarships and other kinds of support services needed by students which cannot be funded through district resources; raise and implement support for special District projects which cannot be funded through district sources; provide a means for perpetual trusteeship of capital funds to be donated to the District by individuals or organizations for programs or activities of benefit to the District and the community; promote fellowship, interest, and the recognition of the District faculty, staff, and students; undertake any other activities which may be to the benefit of the District and the community within the terms and according to the laws of the State of California. Pursuant to the Internal Revenue Services private letter ruling, dated March 23, 2003, the Borrower is authorized to undertake the Project in "furtherance" of its "exempt charitable purpose of advancing education under section 501(c)(3) of the Code."

Board of Directors

A Board of Directors consisting of at least seven but no more than twenty-five members manages the Borrower. Currently there are twenty-two members on the Borrower's Board of Directors, as described below.

<u>Name</u>	<u>Title</u>
Gary McGowan	Director
Susan Carroll	Secretary/Treasurer
Bill Elliott	Director
Jerry V. Kehr	Director
Russell Reid	Vice-President
George Ross	Director
Dennis and Faith Swanson	Director
Bob Darling	Director
Dan West	Director
Bill Dennison	Director
Bob Edwards	Director
Tom Goss	Director
Josh Taylor	Director
Tim O'Brien	Director
Fran Roudebush	Director
John Breaux	President
Kris Miravalle	Director
Dr. Jeff Kepple	Director
Dave and Jane Roberti	Director
Lee Austin	Director
John Gay	Director
Rick Leonhardt	Director

Management of the Project

Initially, the Executive Committee of the Borrower will be responsible for the operation of Project. The Executive Committee consists of the President John Breaux, Vice President Russell Reed, Secretary Susan Carroll and Director Bill Elliott. The Occupancy Agreement provides for the creation of a "Business Management Committee," to be comprised of four board members of the Borrower, plus a community member, to whom management of the Project will be delegated. It is anticipated by the Borrower that the management of the Project will be under a contract arrangement with an outside management company, or that a housing manager will be engaged by the Borrower as an employee to manage the Project. For additional information concerning anticipated management of the Project, see a copy of the Occupancy Agreement which is attached hereto as Appendix E.

Activities of the Borrower

The Borrower has been created as a not-for-profit corporation engaged primarily for the purpose of supporting the District through scholarships and similar traditional foundation activities. In addition to these activities, the Borrower owns and operates the Feather River Fitness and Recreation Center (the "Center"), a full service fitness center, which includes a swimming pool, racquetball courts and multiple resistance training and aerobic fitness equipment. The Center is used by both College students and the general public.

The Borrower has provided certain unaudited financial information concerning its financial position and activities as of March 31, 2003. The financial information for the Borrower has been prepared on a basis which separates the fitness and recreation center from the general charitable operations of the Borrower. The Borrower's general account, which concerns its general charitable activities, reflects on an unaudited basis as of March 31, 2003, total assets of \$99,305.77, of which amount approximately \$65,705.66 are current assets and \$33,600.11 are fixed and other long term assets. As of March 31, 2003 on an unaudited basis, the general account for the Foundation reflected total liabilities and equity of \$99,305.77, of which amount current liabilities were reported to be \$750 with the balance constituting retained earnings and equity of the Borrower.

The unaudited financial information provided by the Borrower concerning the fitness and recreation operations shows, as of March 31, 2003, total assets of \$758,810.40, of which amount \$746,823.44 were reported as fixed assets and other long term asset groups. Total current assets were reported as of such date to be, on an unaudited basis, \$11,986.66. As of March 31, 2003, unaudited financial statements for the Borrower reflected total liabilities of \$385,366.86, of which \$381,368.61 were reported to be long term liabilities for a facility loan secured by a mortgage on assets of the Borrower and payable to Plumas Bank. The unaudited statements of cash receipts and disbursements for the recreation center showed a net income of \$217,092.77 for the twelve month period ending March 1, 2003 and a net income of \$9,699.06 for the month of March 2003.

As more fully described herein, the Bonds are payable solely and exclusively from funds, assets and revenues pledged under the Indenture, consisting of the Trust Estate which is comprised principally of amounts derived from the operation of the Project, as well as any amounts made available by the District under the Occupancy Agreement. The Borrower is not obligated to make payment of any amounts with respect to the Bonds from any other sources, and a Bondholder should not expect that the assets comprising the fitness center or other activities of the Foundation would under any circumstances be available to pay principal of or interest on the Bonds. None of the Bond Documents limit the activities of the Borrower with respect to facilities other than the Project. In the event that the recreation and fitness center, or other facilities or activities undertaken by the Borrower in the future, were not operated on an at least a "break-even" basis, such circumstances could adversely affect the activities of the Borrower. In the event that the Borrower were to seek the protection of the bankruptcy laws, or in the event that an involuntary petition in bankruptcy were filed against the Borrower, such circumstances could adversely affect the operations and activities of the Borrower and the security for the Bonds.

The Borrower and the District entered into an Agreement as of July 19, 2001 concerning the operation of the recreation facility and fitness center. That agreement runs through June of 2016, but the agreement provides that it may be terminated by either party at any time upon six months prior notice. Under that agreement, the Borrower agrees to operate and maintain the fitness and recreation facility, and the District agrees to provide such payments, if any, as shall be necessary to ensure that the facility is operated on at least a "break-even" basis.

THE PROJECT

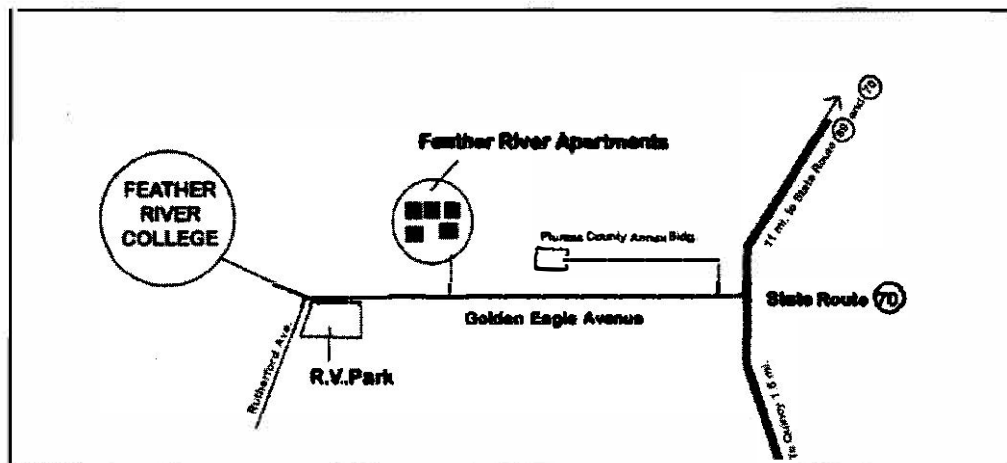
In General

The existing property is a 65-unit apartment complex consisting of six Class "D" buildings, and a manager's residence totaling 36,404 square feet, situated on 13.5 acres located at 300 Golden Eagle Avenue in Quincy, California. The 36,404-square foot, 2-story complex is located on the north side of Golden Eagle Avenue approximately ½ mile east of State Highway 70. According to the Borrower, the current zoning of the property will not prohibit any of the anticipated uses for the Project.

The Project has historically been used as an apartment complex, substantially all of whose residents are students at the College. According to the District, the Project is the primary source of housing for students at the College. The Borrower is undertaking the acquisition of the Project, in part, to allow the District to obtain control of the Project and to ensure that it is available on a continuing basis to provide housing for students at the College. As describe above, under the Occupancy Agreement, the District has committed to provide funding for the upgrade and improvement of the Project in an aggregate amount of \$1,000,000, consisting of four annual payments of \$250,000, commencing July 1, 2003 and continuing thereafter on July 1 of each year through 2006. The improvements shall occur over the summers of 2003, 2004 and 2005. The Project is featured on the District's web site, and applications for residency in the Project are available through the District's web site.

Based on a preliminary title report issued by Cal-Sierra Title Company, dated December 30, 2002, title to the property is vested in Paul D. Jessee and Sheila R. Nash, Trustees of the Paul D. Jessee and Sheila R. Nash February 2000 Trust. The owners reportedly purchased the property on October 31, 1997, for \$1,532,000. The Borrower is under contract to purchase the property for \$2,500,000, which is the appraised value given to the property by Herron Companies (the "Appraisers"), in their appraised report dated March 15, 2003 (the "Appraised Report") and issued to the Borrower. According to the Appraised Report, the difference in value for the property from its acquisition cost in 1997 is attributable to market appreciation experienced since the property was purchased, as well as the level of cosmetic maintenance and an increase in attendance at the College, resulting in increasing occupancy.

Set forth below is a schematic presentation of the general location of the Project in relation to the College.



Physical Description

The 588,060-square foot site consists of one parcel with an irregular shape. Access to the improvements is by means a private, shared, asphalt-paved road leading north from Golden Eagle Avenue. The private road also provides access to the county annex site, north of the property. The terrain is generally level and at street grade. The potential for additional development is, in the view of the Appraisers, limited by its topography, reducing its usable area to approximately 30% of the entire site or 176,000 square feet. The existing apartments consist of:

- 48 one-bedroom apartments each with private bathroom, kitchen, living room and balcony. Each apartment size is 480 square feet.
- 16 two-bedroom apartments each with private bathroom, kitchen, living room and balcony. Each apartment is 636 square feet.
- All apartments are individually metered for electricity and have a propane wall heater and electric kitchen range. Each building has a central propane water heater. All apartments are wired for DSL Internet access.
- One "manager's house" which has 3 bedrooms, 2 bathrooms, laundry room, living room, large balcony and fireplace of 1840 square feet.
- A multi-purpose meeting/lounge/game room of 576 square feet.
- One office of 240 square feet.

On the following page are photographs of the Project prior to any renovation improvements.



Area Description, Population and Demographics

The property is located in the unincorporated rural community known as Quincy within Plumas County. The rural community is situated in the American Valley on the western slope of the Sierra Nevada Mountain Range. Quincy is the location of the College and is also the county seat and is the regional center of most private and public services for Plumas County. State Highway 70 bisects Quincy in an east/west direction, connecting with U.S. Highway 395 to the east, allowing access to Reno, Nevada, the closest metropolitan center, roughly 60 miles southeast.

Quincy is a mountainous region in proximity to a number of lakes, streams and rivers. It is a popular tourist destination that features numerous outdoor recreational activities and over 24 registered historical buildings and/or sites, drawing significant annual tourism to this region. Population and income trends are reflected in the following table:

	<u>1990</u>	<u>2001</u>	<u>Projected 2006</u>
Population	1,782	1,898	1,944
Average Household Size	2.23	2.15	2.15
Median Household Income	N/A	\$30,730	N/A
Population Density	130.07	138.05	141.89

The property is situated in a rural neighborhood, roughly 1½ miles northwest of the local Central Business District. The neighborhood surrounding the site consists of mixed uses, including pasture land, national forest land, the College, and a county administrative annex. There is a municipal airport and several industrial facilities within 1 mile east of the subject. Retail uses are found along State Highway 70, southeast of the property.

Most retail properties can be found in the local Central Business District, which includes Main Street traveling east and Lawrence Street traveling west between Crescent Street and Quincy Junction Road. Commercial properties along these routes are older structures ranging in age from 20 to 100 years. The current trend in Quincy's commercial market is characterized as modest-paced, stable growth.

Area Competition, Supply and Demand

Local competition consists of three apartment complexes with 128 total residential apartments. However, these complexes are primarily occupied by year-round residents receiving public assistance subsidies (Section 8). These complexes are roughly 4 to 6 miles east of the subject. No new development of apartments is planned or under construction. There are a number of smaller multiple-family dwellings (2-6 units), single-family residences, and individual mobile homes currently used by College students for housing. However, the subject is the largest single provider of student housing in this market. Roughly two thirds of the current enrollment (1,554 students) require student housing.

Historical Unaudited Financial Results

Set forth in the table below are the historical unaudited revenues, operating expenses and net operating income for the Project for the year ended December 31, 2002 and for the four-month period ended April 30, 2003. The District is advised that the seller prepared this financial information on an accrual basis. Neither District, the Borrower or the Underwriter have independently verified or validated the figures in the table, and accordingly they do not take responsibility for the table.

HISTORICAL UNAUDITED FINANCIAL RESULTS
for Years Ended December 31, 1999-2002

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
Income				
Lodging	\$	\$	\$	\$ 48,478
Rent	401,825	413,633	436,880	490,568
Total income	\$ 401,825	\$ 413,633	\$ 436,880	\$ 539,046
Expenses				
Advertising	\$ 980	\$ 1,422	\$ 235	\$ 2,041
Auto and Travel	5,178	3,992	2,445	564
Cleaning and Maintenance				22,388
Commissions				
Insurance	8,318	19,104	12,573	18,018
Legal and Other Professional Fees	2,567	412	2,918	4,095
Management Fees				-
Mortgage Interest	98,140	111,857	113,726	126,309
Other Interest	19,282	2,337	711	-
Repairs	26,672	4,006	3,088	3,914
Supplies	7,668	22,979	17,634	42,617
Taxes	19,532	17,514	25,243	17,701
Utilities	50,153	53,464	63,003	59,536
Amortization	110	120	-	
Association Dues	392	120	392	318
Licenses and Permits	25	279		
Gardening	1,440			-
Miscellaneous	1,007	3,111	962	3,065
Telephone	1,996	2,669	2,134	2,218
Wages and Salaries	52,247	67,502	51,870	110,885
Office	4,111	3,877	4,893	10,377
Bank Fees	3,092	113	1,480	1,012
Credit Card Fees				2,032
Employee Expense				365
FRC 50/50 Program	2,205	-		-
Outside Services	644	-	870	6,078
Activity Expenses	1,705	1,183	713	672
Storage Fees			845	1,680
Rec/Game Room Supplies	1,077	203		564
Non-Recurring Repairs and Maintenance				
Total Expenses	\$ 308,406	\$ 315,975	\$ 305,880	\$ 496,331
Net Income	\$ 93,419	\$ 97,658	\$ 131,000	\$ 42,715

Source: Income Tax Returns 1999 - 2001 and 2002 Ledger

Cash Flow Assumption

Set forth below are certain assumptions which have been used for purposes of calculating the following projection of revenues and debt service coverage. In addition, the District has been advised by taxing authorities in the County that, upon the acquisition of the Project by the Borrower, the Project will no longer be subject to ad valorem property taxation, as the Borrower is a charitable enterprise exempt from property taxation. Accordingly, the following cash flow projections makes no provision for property taxes with respect to the Project.

CASHFLOW ASSUMPTIONS*

Unit Mix

Unit Type	# of Units	# of Beds	Monthly Rent Per Bed	Gross Potential Monthly Rent
1 Bedroom - RA	3	3	\$ -	\$ -
2 Bedroom - RA	2	4	\$ -	\$ -
1 Bedroom - Double	47	93	\$ 395	\$ 36,735
2 Bedroom - Double	15	60	\$ 365	\$ 21,900
Total	67	160		\$ 58,635

Net Rentable 62 153

Other Revenue Assumptions

	Total
Additional Revenue	
Instalment Payments	\$ 2,520
Laundry	6,000
Vending Machine Income	3,000
Damages	2,000
Conferences/Sport Campus -- Summer	50,000

Total Additional Revenue \$ 63,520

Average Vacancy Loss 10.00%

Expense Assumptions

Operating Expenses		
Salaries	\$	147,120
Supplies		500
Copies		300
Travel		700
Telephone/Cable		9,000
Computer Supplies and Equipment		2,000
Postage		500
Electricity and Gas		38,000
Sewer		10,000
Waste		5,500
Repairs and Replacement Reserve Fund Contribution (Per Bed and Total)	\$ 175	28,000
Property and Liability Insurance		25,000
Advertising		1,000
Credit Card Fees		1,900
Legal and Professional		1,600
Other Office		4,000
Total Operating Expenses	\$	275,120
Other Expenses		
Issuer Fee	0.10%	\$ 3,415
Trustee Annual Fee		2,000
Total Other Expenses	\$	5,415
TOTAL EXPENSES	\$	280,535

Inflation Rates

	Year 2	Years 3-30
Revenues	3.00%	3.00%
Expenses	3.00%	3.00%

Projected Revenues and Projected Debt Service Coverage

The following tables set forth the coverage of the debt service on the Bonds which is projected to be provided by Net Project Revenues for fiscal years 2003 through 2013, based on certain assumptions regarding revenues and operating expenses as set forth in the footnotes to the tables. The table sets forth the projected coverage assuming that the Project is exempt from property tax. Actual Net Project Revenues and resulting debt service coverage may vary from those set forth below and such variation may be material.

PRO FORMA CASH FLOW

Fiscal Year Ending June 30	2004 (1)	2005	2006	2007	2008	2009	2010	2011	2012	2013
REVENUE										
Rental Income	557,033	573,743	590,958	608,684	626,945	645,753	665,126	685,080	705,632	726,801
Additional Income	95,791	65,428	67,388	69,410	71,492	73,637	75,846	78,122	80,465	82,879
Gross Potential Revenue	852,824	639,169	658,344	678,094	698,437	719,390	740,972	763,201	786,097	809,680
Less: Vacancy	(55,703)	(57,374)	(58,096)	(60,868)	(62,694)	(64,575)	(66,513)	(68,508)	(70,563)	(72,680)
GROSS EFFECTIVE REVENUE	597,120	581,795	599,249	617,226	635,743	654,815	674,460	694,693	715,534	737,000
EXPENSES										
Operating Expenses	(329,354)	(263,374)	(281,875)	(300,631)	(309,650)	(318,939)	(328,508)	(338,363)	(348,514)	(358,989)
Issuer Fee	(3,415)	(3,360)	(3,275)	(3,180)	(3,070)	(2,950)	(2,815)	(2,670)	(2,520)	(2,360)
Trustee Fee	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)	(2,000)
TOTAL EXPENSES	(334,769)	(288,734)	(297,150)	(305,811)	(314,720)	(323,889)	(333,323)	(343,033)	(353,034)	(363,329)
NET OPERATING INCOME	262,352	293,061	302,099	311,415	321,023	330,926	341,137	351,660	362,500	373,671
Debt Service Reserve Fund Earnings	33,122	15,192	15,192	15,192	15,192	15,192	15,192	15,192	15,192	15,192
NET OPERATING INCOME BEFORE DEBT SERVICE	295,474	308,253	317,291	326,607	336,215	346,117	356,329	366,852	377,692	388,863
DEBT SERVICE										
Annual Debt Service	(241,779)	(254,574)	(261,085)	(271,925)	(276,838)	(286,288)	(290,044)	(288,338)	(291,400)	(284,000)
TOTAL DEBT SERVICE	(241,779)	(254,574)	(261,085)	(271,925)	(276,838)	(286,288)	(290,044)	(288,338)	(291,400)	(284,000)
DEBT SERVICE COVERAGE	1.22x	1.21x	1.22x	1.20x	1.21x	1.21x	1.23x	1.27x	1.30x	1.37x
Total Breakeven Occupancy	83.2%	82.6%	82.5%	83.0%	82.5%	82.7%	82.1%	80.7%	80.0%	78.1%
NET CASH FLOW	53,695	53,679	56,206	54,682	59,377	59,830	66,285	78,515	86,292	104,863

BONDHOLDERS' RISKS

Introduction

Identified and summarized below are a number of "Bondholders' Risks" that could adversely affect the operation of the Project and the security for the Bonds which should be considered by prospective investors. The following discussion is not intended to be exhaustive, but includes certain major factors which should be considered along with other factors set forth elsewhere in this Official Statement, including the Appendices hereto.

Revenues from Operation of the Project

If the Borrower is unable to generate sufficient revenues from the operation of the Project (and from amounts received from the District under the Occupancy Agreement) to pay its operating expenses and principal of and interest on the Bonds, an Event of Default will occur under the Bond Documents. Upon an Event of Default, the Bonds may not be paid or may be paid before maturity or applicable redemption dates and a forfeiture of redemption premiums may result. The Borrower's ability to generate revenues and its overall financial condition may be adversely affected by a wide variety of future events and conditions including (i) a decline in the enrollment at the College, (ii) increased competition from other schools, (iii) loss of accreditation, (iv) students' failure to meet applicable federal guidelines or some other event which results in students being ineligible for federal financial aid, and (v) an increase in the supply of housing available to students of the College within the area surrounding the Project.

Limited Obligations of the Authority

The Bonds constitute limited obligations of the Authority and have three potential sources of payment (in addition to Bond proceeds and amounts held in the funds and accounts held under the Bond Documents, and investment earnings on those amounts). The sources of payment are as follows:

- (1) Loan Payments received by the Trustee from the Borrower pursuant to the terms of the Indenture and the Loan Agreement, as well as amounts paid by the District under the Occupancy Agreement.

The Authority has no obligation to pay the Bonds except from Net Project Revenues derived from the Loan Agreement and amounts paid by the District under the Occupancy Agreement. See Appendix C for the definition of "*Revenues*". The Bonds, together with interest and premium, if any, thereon, will not be or constitute general obligations or indebtedness of the State, the District, or any other political subdivision of the State, but will be limited obligations of the Authority. Neither the faith and credit nor the taxing power of the State, the District or any other agency or political subdivision thereof or of the Authority is pledged to the payment of the principal of, premium, if any, or the interest on the Bonds, and the owners of the Bonds, will not have the right to compel any exercise of the taxing power of the State, the District or any other political subdivision thereof to pay the Bonds, any premium thereon, or the interest thereon. Under the Loan Agreement, the Borrower will be required to make loan repayments (the interest in which the Trustee has received by assignment from the Authority) to the Trustee in such amounts and at such times as to enable the Trustee to pay the principal of, premium, if any, and interest on the Bonds. See "SUMMARY OF PRINCIPAL FINANCING DOCUMENTS — THE INDENTURE — Bond Fund" in Appendix C hereto. The loan payments are anticipated, however, to be derived solely from (i) revenues generated by operation of the Project and (ii) amounts paid by the District under the Occupancy Agreement. Furthermore, the Borrower's ability to meet its obligations under the Loan Agreement will depend upon achieving and maintaining certain occupancy levels at the Project throughout the term of the Bonds. However, no assurance can be made that the Borrower will generate sufficient revenues from the Project to pay maturing principal of, premium, if any, and interest on the Bonds after payment of operating expenses of the Project. **In addition, the obligations of the District under the Occupancy Agreement are subject to annual appropriation of funds sufficient for that**

purpose. No assurance can be made that the District will appropriate sufficient funds to meet all of its obligations under the Occupancy Agreement. To the extent that a deficiency in occupancy of the Project arises from financial or other difficulties experienced by the District, these same circumstances may adversely impact the ability of the District to appropriate funds sufficient to make payments under the Occupancy Agreement.

- (2) Revenues received from operation of the Project by a receiver upon a default under the Indenture.

It has been the experience of lenders in recent years that attempts to have a receiver appointed to take charge of properties with respect to which loans have been made are frequently met with defensive measures such as the initiation of protracted litigation and the initiation of bankruptcy proceedings. Such defensive measures can prevent the appointment of a receiver or greatly increase the expense and time involved in having a receiver appointed. Accordingly, prospects for uninterrupted payment of principal and interest on the Bonds in accordance with their terms are largely dependent upon payments from the Borrower and the District, as described in the preceding paragraph, which is dependent upon the success of the Borrower in the operation of the Project, as well as the financial condition of the District.

- (3) Proceeds realized from the sale or lease of Borrower's interest in the Project to a third party by the Trustee at or following foreclosure by the Trustee of the Deed of Trust and proceeds realized from the liquidation of other security for the Bonds.

Debtors frequently employ defensive measures, such as protracted litigation and bankruptcy proceedings, in response to lenders' efforts to foreclose on real property or otherwise to realize upon collateral to satisfy indebtedness which is in default. Such defensive measures can prevent, or greatly increase the expense and time involved in achieving, such foreclosure or other realization. In addition, the Trustee could experience difficulty in selling or leasing the real and personal property portion of the Project upon foreclosure due to the special purpose nature of a student housing facility, and the proceeds of such sale may not be sufficient to pay fully the owners of the Bonds. See "BONDHOLDERS' RISKS — Liquidation of Security may not be Sufficient in the Event of a Default" herein.

Limited Resources of the Borrower; Other Activities of the Borrower

Other than its ownership of the Project, the Borrower has limited additional revenues and assets. In particular, the Borrower operates a fitness and health club center. See "THE BORROWER – General" herein. Furthermore, the Bonds are secured only by the operations and assets of the Project. Therefore, timely payment of principal of, premium, if any, and interest on the Bonds will be dependent upon the Borrower's ability to generate revenues from the Project, and any amounts paid by the District under the Occupancy Agreement, sufficient to pay its operating expense and Loan Payments under the Loan Agreement. If after payment of operating expenses, net revenues are insufficient to pay the debt service on the Bonds, the Borrower likely will have no moneys or assets other than the Project from which to make the payments required under the Loan Agreement and would rely on payments from the District to the extent funds are appropriated for such purpose.

As noted above, the Borrower also owns and operates a health club and fitness facility. No current audited information concerning the Borrower or its undertakings and activities is available. To the extent these or other assets of the Borrower are not operated on at least a break even basis, the potential exists that the Borrower could realize financial difficulties. In the event that the Borrower were to seek relief under the Bankruptcy Act, or be the subject of an involuntary petition in bankruptcy, the operations and activities of the Borrower, including the Project, would likely be adversely affected.

Required Occupancy Levels and Rents; District Annual Appropriation

In order for the Borrower to generate sufficient revenues to enable it to make the loan payments at the times required under the Loan Agreement, the Project must meet certain occupancy levels and collect a certain level of rental payments. See "THE PROJECT—Debt Service Coverage" herein. There can be no assurance, however, that the Project will be able to meet and maintain such required occupancy and rent levels. As described herein, under the Occupancy Agreement, the District has agreed to make certain payments to the Borrower, which have been assigned to the Trustee, in the event that occupancy of the Project (excluding resident assistants and employees of the Borrower) falls below 90%. The obligation of the District to make such payments under the Occupancy Agreement is subject to the act of the Board of Trustees of the District in appropriating funds sufficient for that purpose. No assurance exists that, in the event occupancy in the Project falls below 90%, that such amounts will be appropriated by the District to provide for payments under the Occupancy Agreement. If the District fails to appropriate amounts owed under the Occupancy Agreement in any Fiscal Year, the Occupancy Agreement would terminate, and the District would have no further responsibility for payments thereunder. See "BONDHOLDERS' RISKS."

Special Use Nature of the Project

The Project was constructed to serve as a student housing facility and is located adjacent to the campus of the College. If it were necessary to foreclose on the Project pursuant to the Deed of Trust upon an Event of Default, the special use nature of the Project may curtail the purchase price that could be obtained, and the net proceeds received may be less than the principal amount of Bonds Outstanding. For all practical purposes, payment of the Bonds will be dependent upon the continued operation of the Project, which in turn will depend on student housing demand at the College, as well as any payments by the District under the Occupancy Agreement.

Enforceability of Remedies

The Bonds are payable from the Revenues, including payments to be made under the Loan Agreement, the Occupancy Agreement and the Indenture. The payments to be made under the Loan Agreement are secured by (i) a first security interest in and to the Borrower's interest in the Project pursuant to the Deed of Trust, (ii) an assignment and pledge of (a) the Borrower's interest in the rents, issues, profits, revenues, income, receipts, moneys, royalties, rights and benefits of and from the Project and from and in connection with the Borrower's ownership, occupancy, use, or enjoyment of the Project, and (b) all leases of all or part of the Project and any and all tenant contracts, rental agreements, franchise agreements, management contracts, construction contracts, concessions, and other contracts, expenses, and permits pursuant to the Deed of Trust, (iii) all amounts payable by the District under the Occupancy Agreement, and (iv) a grant of a security interest in the Revenues, all subject to Permitted Encumbrances. Pursuant to the Indenture, the Bonds are secured by the Revenues, including the assignment by the Authority to the Trustee of and by a grant of a security interest in, the Authority's interest in the Loan Agreement, the Occupancy Agreement and the Deed of Trust. The practical realization of value upon any default will depend upon the exercise of various remedies specified by the Bond Documents. These and other remedies may, in many respects, require judicial actions, which are often subject to discretion and delay. Under existing law (including, particularly, federal bankruptcy law), the remedies specified by the Bond Documents may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in the Bond Documents.

Limitations on Remedies and Bankruptcy

The rights and remedies provided in the Indenture, the Occupancy Agreement and the Loan Agreement may be limited by and are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, and to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. The various opinions of

counsel to be delivered with respect to such documents, including the opinion of Bond Counsel (the form of which is attached as Appendix D), will be similarly qualified.

The enforcement of the remedies provided in the Loan Agreement, the Occupancy Agreement and the Indenture could prove both expensive and time consuming. In the event of a default, the rights and remedies provided in the Loan Agreement, the Occupancy Agreement and Indenture may be limited by and are subject to provisions of the federal bankruptcy laws, as now or hereafter enacted, and to other laws or equitable principles that may affect creditors' rights. If the Borrower were to file a petition under the Bankruptcy Code (Title 11, United States Code), the Bondholders and the Trustee could be prohibited or severely restricted from taking any steps to enforce its rights under the Loan Agreement and from taking any steps to collect amounts due from the Borrower under Loan Agreement.

Effect of Determination of Taxability

The Borrower will covenant not to take any action that would cause the Series A Bonds to be arbitrage bonds or that would otherwise adversely affect the federal income tax status of interest on the Series A Bonds. The Borrower has also made representations with respect to certain matters within its knowledge which have been relied on by Bond Counsel and which Bond Counsel has not independently verified. Failure to comply with such covenants could cause interest on the Series A Bonds to become subject to federal income taxation retroactively from their date of issuance.

It is possible that a period of time may elapse between the occurrence of the event which causes interest to become taxable and the determination that such an event has occurred. In such a case, interest previously paid on the Series A Bonds could become retroactively taxable from the date of their issuance. Additionally, certain owners of Series A Bonds are subject to possible adverse tax consequences. See "TAX EXEMPTION" herein.

Absence of Earthquake Insurance

Much of California is seismically active, with numerous faults that could be earthquake sources. The Borrower is not obligated under the Bond Documents to procure and maintain, or cause to be procured and maintained, earthquake insurance on the Project. Thus, if seismic activity caused significant damage to the Project, the value of such property could be adversely affected. The Borrower believes that the Project is not located in a site which has experienced seismic activity in recent years. While no assurance exists that seismic activity may be eliminated as a concern, the Borrower believes that the likelihood of significant seismic activity in the area of the Project is small.

Market for the Bonds

There can be no assurance that a secondary market exists, or that the Bonds can be sold for any particular price. Accordingly, a purchaser of the Bonds should recognize that an investment in the Bonds may be illiquid and be prepared to have his or her funds committed until the Bonds mature or are redeemed.

Consequences of Changes in the Borrower's Tax Status

The Borrower has obtained a determination letter from the Internal Revenue Service stating that it will be treated as an exempt organization as described in Section 501(c)(3) of the Code and can reasonably be expected to not be classified as a "private foundation." In order to maintain its exempt status and to not be considered a private foundation, the Borrower is subject to a number of requirements affecting its operation. The possible modification or repeal of certain existing federal income tax laws, the change of Internal Revenue Service policies or positions, the change of the Borrower's method of operations, purposes or character or other factors could result in loss by the Borrower of its tax-exempt status.

The Borrower has covenanted to remain eligible for such tax-exempt status and to avoid operating the Project as an unrelated trade or business (as determined by applying §512(a) of the Code). Failure of the Project to remain so qualified or of the Borrower so to operate the Project could affect the funds available to the Borrower for payments under the Loan Agreement by subjecting the Borrower to federal income taxation and could result in the loss of the excludability of interest on the Series A Bonds from gross income for purposes of federal income taxation. Potential investors should note that in such event, the provisions of the Indenture relating to a Determination of Taxability may be applicable. See “BONDHOLDERS’ RISKS — Effect of Determination of Taxability” above.

Taxation of the Bonds

An opinion of Bond Counsel has been obtained as described under “TAX EXEMPTION” herein. Such an opinion is not binding on the Internal Revenue Service. Application for a ruling from the Internal Revenue Service regarding the status of the interest on the Series A Bonds has not been made. The opinion of Bond Counsel contains certain exceptions and is based on certain assumptions described herein under the heading “TAX EXEMPTION.” Failure by the Authority or the Borrower to comply with certain provisions of the Code and covenants contained in the Indenture and the Loan Agreement could result in interest on the Series A Bonds becoming includable in gross income for federal tax purposes.

No Independent Feasibility Study

The Borrower has not caused the performance of an independent feasibility study or financial analysis of the Project.

LITIGATION

The Authority. There is no litigation now pending or, to the best knowledge of the Authority, threatened against the Authority which restrains or enjoins the issuance or delivery of the Bonds or questions or affects the validity of the Bonds or the proceedings and authority under which they are to be issued or which in any manner questions the right of the Authority to enter into the Indenture or the Loan Agreement or to secure the Bonds in the manner provided in the Indenture. To the Authority’s knowledge, neither the creation, organization, or existence of the Authority, nor the title of the present members or other officers of the Authority to their respective offices, is being contested or questioned.

The Borrower. There is no litigation now pending or, to the best knowledge of the Borrower, threatened against the Borrower which in any manner questions the right of the Borrower to enter into or perform its obligations under the Loan Agreement, the Occupancy Agreement or the Deed of Trust.

The District. There is no litigation now pending or, to the best knowledge of the District, threatened against the District which in any manner questions the right of the District to enter into or perform its obligations under the Occupancy Agreement.

On the Closing Date, the Authority, the Borrower and the District will each deliver to the Underwriter a certificate that no litigation is pending or threatened against it which would have a material effect on the issuance of the Bonds or performance under the Indenture, the Occupancy Agreement, the Loan Agreement, the Deed of Trust or any document related thereto.

TAX EXEMPTION

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel, under existing statutes, regulations, rulings and judicial decisions, and assuming certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the Series A Bonds is excluded from gross income for federal income tax purposes,

and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. Bond Counsel notes that, with respect to corporations, interest on the Series A Bonds 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. In the further opinion of Bond Counsel, interest (and original issue discount) on the Series A Bonds and the Series B Bonds is exempt from State of California personal income tax.

Bond Counsel's opinion as to the exclusion from gross income of the interest (and original issue discount) on the Series A Bonds is based upon certain representations of fact and certifications made by the Authority, the Borrower and others and is subject to the condition that the Authority and the Borrower comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Series A Bonds to assure that the interest (and original issue discount) on the Series A Bonds will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause the interest (and original issue discount) on the Series A Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Series A Bonds. The Authority and the Borrower have covenanted to comply with all such requirements.

In addition, the difference between the issue price of a Bond (the first price at which a substantial amount of the Series A Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to the Bond constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. The amount of original issue discount that accrues to the owner of the Bond is excluded from 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. A complete copy of the proposed opinion of Bond Counsel is set forth in Appendix D.

The amount by which a Bondholder's original basis for determining loss on sale or exchange on the applicable Bond (generally the purchase price) exceeds the amount payable on maturity (or on an earlier call date) constitutes amortizable bond premium which must be amortized under Section 171 of the Code. Such amortizable bond premium reduces the Bondholder's basis in the applicable Bond (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 Bond premium may result in a Bondholder realizing a taxable gain when a Bond is sold by the owner for an amount equal to or less (under certain circumstances) than the original cost of the Bond to the owner. Bond purchasers should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable bond premium.

In addition, Bond Counsel has relied on the opinion of Dwaine Chambers, Esq., School Legal Services, Bakersfield, California ("Borrower's Counsel") regarding the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Code. Neither Bond Counsel nor Borrowers' Counsel can give or has given any opinion or assurance about the future activities of the Borrower, 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. Failure of the Borrower 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 on the Series A Bonds being included in gross income, possibly from the date of original issuance of the Series A Bonds.

Bond Counsel's opinions may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. Bond Counsel has not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Series A Bonds permit certain actions to be taken or to be omitted if a favorable opinion of Bond Counsel is provided with respect thereto. Bond Counsel expresses no opinion as to the exclusion from gross income of

the interest (and original issue discount) on the Series A Bonds for federal income tax purposes if any such action is taken or omitted based upon the advice of counsel other than Stradling Yocca Carlson & Rauth.

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

Legislation affecting municipal obligations is continually being considered by the United States Congress. There can be no assurance that legislation enacted after the date of issuance of the Bonds will not have an adverse effect on the tax-exempt status of the Series A Bonds. Legislation or regulatory actions and proposals may also affect the economic value of tax exemption or the market price of the Series A Bonds.

UNDERWRITING

The Bonds are being purchased for reoffering by the Underwriter. The Underwriter has agreed to purchase the Bonds at the purchase price of \$3,277,903 (representing the aggregate principal amount of the Bonds of \$3,415,000 less an original issue discount of \$51,722 and less an underwriter's discount of \$85,375). The Bond Purchase Agreement relating to the Bonds provides that the Underwriter will purchase all of the Bonds, if any are purchased. The obligation to make such purchase is subject to certain terms and conditions set forth in such Bond Purchase Agreement.

The Underwriter may offer and sell the Bonds to dealers and others at a price lower than the offering price stated on the cover page hereof. The offering price may be changed from time to time by the Underwriter.

RATING

The Bonds have been assigned a rating of "BBB-" by Standard & Poor's Ratings Services ("S&P") based on the bond insurance policy issued by the Insurer concurrently with the issuance of the Bonds. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the views of S&P, and neither the Authority, the Borrower, nor the Underwriter makes any representation as to the appropriateness of such rating.

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 S&P if, in the judgment of S&P, circumstances warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LEGAL MATTERS

Certain legal matters pertaining to the Authority and its authorization and issuance of the Bonds are subject to the approving opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel, the form of which is included as Appendix D hereto. Certain legal matters will be passed on for the Authority by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, and for the Borrower by Dwaine Chambers, Esq., Schools Legal Service, Bakersfield, California, and for the Underwriter by Patton Boggs LLP, Washington, D.C.

Bond Counsel's employment is limited to a review of the legal proceedings required for the authorization of the Bonds and to rendering the opinion referred to herein. Such opinion will not consider or

extend to, except as to Appendix C of, this Official Statement, or any sections, documents, agreements, representations, offering circulars or other material of any kind concerning the Bonds.

CONTINUING DISCLOSURE

The Borrower has covenanted in a Continuing Disclosure Agreement, dated the date of delivery of the Bonds (the "Continuing Disclosure Agreement"), for the benefit of the holders and beneficial owners of the Bonds to provide certain financial information and operating data relating to the Borrower by December 31 of each year (the "Annual Report"), commencing December 31, 2003, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and the notices of material events will be filed by the Borrower with each Repository identified in the Continuing Disclosure Agreement. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in Appendix F - "Form Of Continuing Disclosure Agreement" hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b)(5) promulgated under the Securities Exchange Act of 1934. The Borrower has not previously entered into any other continuing disclosure undertaking. The Authority is not an obligated party and has no responsibilities to disclose further information.

MISCELLANEOUS

This Official Statement is not to be construed as a contract or agreement between the Authority, the Borrower or the Underwriter and the purchasers or owners of any of the Bonds. The Borrower will represent to the Underwriter in the Bond Purchase Agreement that the information contained in this Official Statement, except under the headings "THE AUTHORITY," "UNDERWRITING," and "TAX MATTERS," does not contain any misrepresentation of a material fact and does not omit to state any material fact necessary to make the statements herein contained, in light of the circumstances under which they were made, not misleading.

The references herein to the Loan Agreement, the Occupancy Agreement, the Indenture and the Deed of Trust constitute a brief outline of certain provisions thereof. Such outline does not purport to be complete and for full and complete statement of such provisions reference is made to said documents. Copies of the Loan Agreement, the Occupancy Agreement, the Indenture and the Deed of Trust are available for inspection at the offices of the Borrower and the Authority and following delivery of the Bonds will be on file at the Principal Office of the Trustee in Los Angeles, California.

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

The Borrower has duly authorized the use of this Official Statement in connection with the offering of the Bonds.

FEATHER RIVER COLLEGE FOUNDATION, INC.

By /s/ John Breaux
President

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APPENDIX A

ECONOMY OF PLUMAS COUNTY

Generally

The Project is located in Plumas County (the "County"), in northeastern California, where the Sierra Nevada and Cascade mountain ranges meet. Plumas County includes mountain peaks, timbered hills and fertile valley, with more than 100 lakes, 1,000 miles of rivers and streams, and over a million acres of national forest. Elevations in the County range from 1,800 feet to over 8,000 feet. The County is approximately 150 miles northeast of Sacramento and 80 miles west of Reno, Nevada. Two major highways traverse the County: Highway 70, running east-west, and Highway 89, running north-south. Almost 70 percent of the County's 1,675,780 acres are publicly owned, primarily under the control of the U.S. Forest Service. The major industry in the County includes not only the cutting, harvesting and finishing of lumber of other forest products, but also tourism related to recreational opportunities in the area.

Population

The following table lists population figures for the County and the State for the years shown below.

COUNTY OF PLUMAS
Population Estimates
Calendar Years 1996 through 2002

<u>Calendar Year</u>	<u>County of Plumas</u>	<u>State of California</u>
1996	20,800	31,837,000
1997	20,850	32,207,000
1998	20,900	32,657,000
1999	20,800	33,140,000
2000	20,750	33,753,000
2001	20,850	34,385,000
2002	21,000	35,037,000

Source: State Department of Finance estimates (as of January 1)

Industry and Employment

The California Employment Development Department estimates that, as of December 31, 2001, the civilian labor force for residents of the County was 9,870, of whom 9,040 were employed. The unadjusted unemployment rate as of December 31, 2001 was approximately 8.4%. Unemployment rates are not available for the District. With respect to the County and the State, the following table summarizes the civilian labor force, employment and unemployment for the calendar years 1993 through 2002:

METROPOLITAN STATISTICAL AREA (PLUMAS COUNTY)
Civilian Labor Force, Employment and Unemployment
Calendar Years 1993 through 2002
Annual Averages

<u>Year</u>	<u>Area</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment</u>	<u>Unemployment Rate</u>
1993	Plumas County	9,710	8,260	1,450	14.9
	California	15,359,500	13,918,300	1,441,100	9.4
1994	Plumas County	10,080	8,650	1,430	14.2
	California	15,450,000	14,122,100	1,327,900	8.6
1995	Plumas County	9,830	8,520	1,310	13.3
	California	15,412,200	14,202,800	1,209,400	7.8
1996	Plumas County	9,930	8,750	1,190	11.9
	California	15,551,600	14,391,500	1,120,100	7.2
1997	Plumas County	9,910	8,880	1,030	10.4
	California	15,947,300	14,942,500	1,004,700	6.3
1998	Plumas County	9,740	8,740	1,010	10.3
	California	16,336,500	15,367,500	969,000	5.9
1999	Plumas County	9,500	8,650	860	9.0
	California	16,596,500	15,731,700	864,800	5.2
2000	Plumas County	9,760	8,950	810	8.3
	California	17,090,800	16,245,600	845,200	4.9
2001	Plumas County	9,870	9,040	830	8.4
	California	17,182,900	16,260,160	912,800	5.4
2002	Plumas County	10,120	9,210	910	9.0
	California	17,404,600	16,241,800	1,162,800	6.7

Source: State of California, California Employment Development Department.

Goods-producing industries (mining, manufacturing, and construction) accounted for 17.5% of all the non-agricultural jobs in Sacramento County in 2001, compared with 18.9% for the nation. Service-based jobs accounted for 47.9% of the County jobs, compared with 65.2% for the nation. Government jobs account for 34.5% of Plumas County employment compared with 15.9% for the nation, with the higher distribution of government jobs due largely to the presence of the management of the forest service lands.

The largest employers in the Plumas County area include:

Plumas County Major Private Employers		
Company	Product/Service	Employees
Sierra Pacific Industries	Lumber Mill / Electric Generator	300
Collins Pine Company	Lumber Mill / Electric Generator	210
Union Pacific Railroad	Railroad	185
Plumas Bank	Financial Services	113
Feather Publishing	Newspaper	97
Pacific Gas & Electric	Utility	88
American Valley Aviation	Airplane Salvage / Parts	55
Alamancor Manufacturing	Metals Fabrication	43
Trilogy Magnetics	Computer Components	31
Culver Fiber & Fuel	Forestry	25

Construction Trends

Provided below are the building permits and valuations for the County for calendar years 1998 through 2002.

COUNTY OF PLUMAS
Building Permit and Valuations
For Years 1998 through 2002
(dollars in thousands)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>
<i>Residential</i>					
- Single Family	\$13,307	\$10,243	\$24,780	\$25,339	\$33,475
- Multi Family	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>509</u>
SUBTOTAL	13,307	10,243	24,780	25,339	33,984
- Alterations/Additions	<u>98</u>	<u>113</u>	<u>788</u>	<u>334</u>	<u>1,083</u>
TOTAL	\$13,405	\$10,356	\$25,568	\$25,673	\$35,067
<i>Non-Residential</i>					
New Construction	\$450	\$631	\$1,170	\$501	\$1,595
Alterations/Additions	<u>39</u>	<u>103</u>	<u>671</u>	<u>347</u>	<u>384</u>
TOTAL	\$489	\$734	\$1,841	\$848	\$1,979
TOTAL PERMIT VALUATION	\$13,894	\$11,090	\$27,409	\$26,521	\$37,046

Source: California Residential Building Permit Activity

Effective Buying Income

“Effective Buying Income” is defined as Money Income less personal tax and nontax payments, a number often referred to as “disposable” or “after-tax” income.

Money income is the aggregate of wages and salaries, net farm and nonfarm self-employment income, interest, dividends, net rental and royalty income, Social Security and railroad retirement income, other retirement and disability income, public assistance income, unemployment compensation, Veterans Administration payments, alimony and child support, military family allotments, net winnings from gambling, and other periodic income.

Deducted from this total money income are personal income taxes (federal, state, local), personal contributions to social insurance (Social Security and federal retirement payroll deductions), and taxes on owner-occupied nonbusiness real estate.

Receipts from the following sources are not included as money income; money received from the sale of property (unless the recipient is engaged in the business of selling property); the value of income “in kind” from food stamps, public housing subsidies, medical care, employer contributions for persons, etc.; withdrawal of bank deposits; money borrowed; tax refunds; exchange of money between relatives living in the same household; gifts and lump-sum inheritances, insurance payments, and other types of lump-sum receipts.

Due to changes implemented in 1996 in the method of calculating Effective Buying Income, prior years are not directly comparable with statistics for 1996. The following table summarizes the total effective buying income for the County, the State and the United States for the period 1997 through 2001.

COUNTY OF PLUMAS
Effective Buying Income ⁽¹⁾
As of January 1, 1997 through 2001

<u>Year</u>	<u>Area</u>	<u>Total Effective Buying Income (000's Omitted)</u>	<u>Median Household Effective Buying Income</u>
1997	Plumas County	\$265.583	\$29.574
	California	524,439.600	36.483
	United States	4,399,998,035	34.618
1998	Plumas County	\$283.257	\$25.306
	California	551,999.317	37.091
	United States	4,621,491.738	35.377
1999	Plumas County	\$299.578	\$27.320
	California	590,376.663	39.492
	United States	4,877,786.658	37.233
2000	Plumas County	\$331.851	\$29.717
	California	652,190.282	44.464
	United States	5,230,824,904	39.129
2001	Plumas County	\$336.698	\$30.417
	California	650,521.407	43.532
	United States	5,303,481.498	38.365

Source: Sales & Marketing Management Survey of Buying Power.

Note: Not comparable with prior years. Effective Buying Income is now based on money income (which does not take into account sale of property, taxes and social security paid, receipt of food stamps, etc.) versus personal income.

Commercial Activity

During the calendar year of 2001, total taxable transactions in the County were \$192,957 or 0.97% greater than total taxable transactions of \$187,401 that occurred in the County during the calendar year of 2000. A summary of historic taxable sales within the County during the past six years is shown in the following table.

COUNTY OF PLUMAS Taxable Transactions (dollars in thousands)

<u>Year</u>	<u>Permits on July 1</u>	<u>Retail Stores Taxable Transactions</u>	<u>Permits on July 1</u>	<u>Total Outlets Taxable Transactions</u>
1996	432	\$90,867	651	\$147,239
1997	422	96,036	647	157,297
1998	398	94,675	649	155,033
1999	424	101,888	576	168,147
2000	431	110,800	613	187,401
2001	426	113,417	633	192,957

Source: State Board of Equalization.

APPENDIX B

GENERAL INFORMATION CONCERNING THE DISTRICT AND AUDITED FINANCIAL INFORMATION FOR THE TWELVE MONTH PERIOD ENDED JUNE 30, 2002

General Description

Founded in 1968, Feather River Community College (the "College") is one of 108 community colleges in California. The College offers two-year Associate degrees and certificates to students planning to transfer to four-year institutions or enter the world of work immediately. The College is fully accredited by the Western Association of Schools and Colleges.

The College sits on a 266-acre campus on a mountainside forested with pine and oak. The campus provides a sanctuary for self-discovery, study and recreation. The surrounding Plumas County forest, with hundreds of miles of trails and rivers, lakes, and a four-season climate, provides an outdoor laboratory and playground for the College's students. In addition to classrooms, laboratories, and modern technology, the campus features a trout hatchery capable of producing 50,000 fingerlings a year, an equestrian center with horse boarding capabilities, and state-of-the-art athletic facilities.

The students enjoy the opportunity to study traditional transferable majors and vocational programs in unique subjects such as environmental studies, outdoor recreation leadership, and pack station and stable operations. These programs and the attractive location draw many students from outside the local area.

Feather River Community College serves the 20,000 residents of rural Plumas County by offering day, evening, weekend, and online classes primarily at the main campus in Quincy, and at the Chester Campus in the north county. Students of neighboring Sierra County, which is located 55 miles from the main campus, are also served by the College.

The College's environment allows students to study in a friendly, informal atmosphere by a faculty and staff dedicated to student growth. Students work closely with counselors and advisors to identify and schedule classes needed for specific majors. The College offers support services to help students build self-confidence, understand the importance of education and the processes involved in succeeding in higher education.

The staff of the College fosters an environment where students meet the challenges of college life and prepare for the future. Career counseling and self-discovery programs help students identify their interests and develop career plans leading to employment. Academic advisors guide students in planning a program of study and identifying and scheduling classes. Free tutoring and review classes help ensure college success. This commitment to provide support services and to promote student success has assisted students academically, and the College continues to hold one of the highest graduation rates in the state. For nine consecutive years, Feather River students have been won placement on the California Community College All Academic Team.

In addition to attracting outdoor majors, the College draws many student-athletes. The College participates in intercollegiate men's and women's basketball, men's baseball and football, women's softball, and women's volleyball. A large number of the College's full-time students participate in athletics. The athletics department strives to send graduates to play their sports at a higher level, while continuing to pursue their educational goals.

Reasons for the Project

The College has experienced a growth in full-time student enrollment in the past five years—with an 11.5% increase from 2000 to 2001. Because of the small county population, most of the College's students are drawn from outside the local area. Most students currently seek housing at the privately owned Feather River Apartments, or with assorted homeowners in and around the local area. New students in search of viable housing is a recurrent issue each fall, and often students are housed with faculty and staff until a rental becomes available.

Faced with the issue of a lack of student housing, the administrators of Feather River Community College District (the "District") conducted a cost / affordability analysis of building on-campus dormitories. The College's dorms of similar size to the Feather River Apartments were projected to cost \$7.1 million. To save the District the high costs of financing dorms, and in turn, to allow the students to pay lower rents, the Feather River College Foundation (referred to herein as the "Borrower") determined to purchase the privately owned Feather River Apartments, which are located adjacent to the campus.

The Feather River Apartments are larger in size than typical college dormitories, and also have amenities (private bathrooms, kitchens, living rooms, balcony) that dorms typically lack. With the Borrower as the owner of the Feather River Apartments, the District expects that student housing will be operated at a lower cost than the District could operate dorms. Additionally, the purchase of apartments by the FRC Foundation is anticipated by the District to reduce the competition that would potentially exist if the District built dorms and the apartments remained outside of Borrower/District control. The proposed purchase of the apartments by the Borrower will prevent these existing and adjacent facilities from being sold to future owners who may be less inclined to support student housing.

There are fewer than 50 graduates of Quincy high school each year, and only 200 high school graduates in Plumas and Sierra counties annually. This requires the College to recruit outside the local area. The California Community College Chancellor's Office has granted the District the exclusive right to recruit statewide because of its unique location and small service area. Legislation, SB2000 "Good Neighbor policy," has been enacted so Nevada students can attend the College at reduced nonresident tuition. Thirty-seven 37% of the College's fulltime students (148 of 253 students) were athletes in the fall 2003 semester. Because the local population provides a small amount of students to the College, fewer than five of those student athletes are from local high schools.

The District is concerned with all aspects of a student's college experience, including quality of life. Many students at the College are those who are not ready for the pressures and responsibilities of life at a four-year school. Often their experience at the College is the first away from home, and their parents are very concerned about their safety and supervision. The creation of a safe, controlled living environment by the Borrower and the District in the apartments is essential to a student's ultimate decision to attend the College.

Organization and Administration

The District is governed by the Board of Trustees. The general administrative powers of the Board include the power to enact ordinances for the governance of the institution under its control, the setting of fees, the appointment and employment of the District's administrators and faculty, and the establishment of curricula. The administrative officers of the District are responsible for its operation and maintenance in accordance with the rules and policies established by the Board.

Set forth below is a list of the Board of Trustees and principal administrators of the District.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT BOARD OF TRUSTEES		
<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Dr. Irene Burkey	President, Trustee Area V	November 2004
Mr. William Elliott	Vice President, Trustee Area II	November 2004
Mr. Michael Cassity	Trustee, Area IV	November 2004
Mr. Robert Marshall	Trustee, Area I	November 2004
Mr. John Sheehan	Trustee, Area III	November 2004
Mr. Joshua Herring	Student Trustee	November 2004

FEATHER RIVER COMMUNITY COLLEGE DISTRICT ADMINISTRATION	
<u>Name</u>	<u>Position</u>
Dr. Susan Carroll	Superintendent/President
Mr. Ron Groh	Assistant Superintendent/Business Services
Dr. Michael Bagley	Dean of Instruction
Mr. Paul Thein	Dean of Students
Mr. Al Alt	Human Resources Director
Mr. Rand Groh	Information Systems Manager
Mr. Ralph Schroeder	Director of Physical Plant

Faculty and Staff

The full-time faculty of the College totaled 31 during the Fall Semester, 2002, of which 68% were tenured. Part-time Faculty at the College totaled 72 during Fall Semester 2002. Approximately 71 persons were employed on a full-time basis in a variety of staff support positions, while part-time and temporary staff (exclusive of student employees consisted of approximately 96 persons.

Student Enrollments

Fall Semesters: FTES Full-Time

Fall	FTE*	FTE 1 Year Change
1996	1041	---
1997	1020	-2.1%
1998	1103	7.5%
1999	1219	9.5%
2000	1326	8.1%
2001	1498	11.5%

Accreditation

The College is a member of the Western Association of Schools and Colleges (“WASC”). The campus is fully accredited by the Senior Commission of WASC . This accreditation requires periodic review in accord with WASC policies and standards.

Summary Unaudited Financial Information

**FEATHER RIVER COMMUNITY COLLEGE DISTRICT
UNAUDITED SUMMARY OF ANNUAL FINANCIAL INFORMATION
(Derived from audits of the College)**

	<u>1997/98</u>	<u>BUDGET 1998/99</u>	<u>1999/00</u>	<u>2000/01</u>	<u>2001/02</u>	<u>2002/03</u>
REVENUES:						
General Fund:						
Unrestricted	6,196,758	6,708,628	7,326,497	8,505,844	9,600,636	11,059,375
Restricted	2,248,254	2,196,052	1,744,126	1,863,362	2,256,450	2,658,369
Special Revenue:						
Child Development Fun	189,395	218,399	223,375	235,332	250,891	258,433
Capital Outlay Fund	817,776	92,065	155,386	465,066	781,392	1,006,299
Fiduciary Funds:						
Financial Aid Fund	430,573	522,947	486,739	499,867	467,148	691,222
ASB Fund	20,162	20,154	18,191	12,377	10,796	10,796
Retiree Fund	121,966	193,518	296,620	383,490	467,110	557,047
Bookstore Fund	212,555	233,273	226,479	247,495	267,132	267,132
TOTAL REVENUES	10,237,439	10,185,036	10,477,413	12,212,833	14,101,555	16,508,673
EXPENDITURES						
General Fund:						
Unrestricted	5,665,027	6,209,674	6,700,688	7,625,691	8,308,613	
Restricted	2,188,630	2,102,511	1,668,373	1,773,383	2,115,670	
Special Revenue:						
Child Development Fun	152,792	174,556	170,612	176,505	187,075	
Capital Outlay Fund	751,535	32,172	63,588	348,166	373,300	
Fiduciary Funds:						
Financial Aid Fund	428,722	521,096	484,892	496,247	460,708	
ASB Fund	10,072	13,424	12,461	6,289	5,404	
Retiree Fund	2,580	2,580	19,112	28,866	39,792	
Bookstore Fund	206,899	219,724	209,196	235,183	257,633	
TOTAL EXPENDITURES	9,406,257	9,275,737	9,328,922	10,690,330	11,748,195	
NET ENDING BALANCE FOR ALL FUNDS @6/30	831,182	909,299	1,148,491	1,522,503	2,353,360	

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**FEATHER RIVER COMMUNITY COLLEGE DISTRICT
COUNTY OF PLUMAS
QUINCY, CALIFORNIA**

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2002

AND

INDEPENDENT AUDITOR'S REPORT

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FEATHER RIVER COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2002

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FEATHER RIVER COMMUNITY COLLEGE DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

For the Year Ended June 30, 2002

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Office of the President

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MESSAGE FROM THE SUPERINTENDENT/PRESIDENT

Over the past year, the college has made substantial progress in a number of areas. Students continue to do well academically and, for the sixth consecutive year, two FRC students were named to the All-California Academic Team – an honor bestowed on only 24 students in the state. The Golden Eagle Men's Baseball Team won their third straight Golden Valley Conference Championship, and the college was awarded its second major federal grant (Talent Search) to assist students at risk. All computers on campus were updated with current Windows software, and work was begun to provide the platform necessary to support XP instruction. New and/or upgraded servers were also installed.

Foundational work up to the selection of an architectural firm was completed for the potential construction of student housing – a project that the college has recently put on hold pending the investigation of purchasing nearby apartments as a less expensive alternative. The Pack Station and Stable Operation program is in the process of relocation and the addition of a new barn, arena, offices, classrooms, and dry lots.

Two new administrators, a Dean of Instruction and Director of Admissions and Records, were hired at the beginning of the academic year, as were the head and assistant coaches for the college's new football program. This one program attracted 69 new students and was the single most effective factor in increasing full-time, on-campus enrollment.

The college lost one excellent trustee, but gained another. Both the Board of Trustees and the Foundation Board continue to provide valued oversight and support for the institution. In early December, the Quincy Chamber of Commerce selected the college as the Business of the Year for its on-going contributions to and partnerships with the community.

In summary, the past year has been characterized by solid progress and momentum. Although we are very concerned about recent budget cuts proposed by the Governor, we are hopeful that we can continue to offer the scope of instruction and services needed by our students and employers in this district. We will certainly try our best to do so.

Susan Carroll, Ph.D.
Superintendent/President

18 December 2002

INTRODUCTION

The audit has the following objectives:

- **To assess the adequacy of the systems and procedures for financial accounting, compliance with rules and regulations, and internal control in the Feather River Community College District.**
- **To determine the accountability for revenues, the propriety of expenditures, and the extent to which funds have been expended in accordance with prescribed State and Federal laws and regulations.**
- **To determine whether financial and financially related reports to State and Federal agencies are presented fairly.**
- **To determine the fairness of presentation of the Feather River Community College District's financial statements.**
- **To recommend appropriate actions to correct any deficiencies.**



INDEPENDENT AUDITOR'S REPORT

**Board of Trustees
Feather River Community College District
Quincy, California**

We have audited the accompanying general purpose financial statements of Feather River Community College District as of and for the year ended June 30, 2002, as listed in the foregoing Table of Contents. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The District is not required by the California State Education Code to capitalize general fixed assets and, accordingly, a statement of fixed assets, as required by accounting principles generally accepted in the United States of America, is not included in the general purpose financial statements. The effect of this departure from generally accepted accounting principles on the general purpose financial statements has not been determined.

In our opinion, except that the omission described in the preceding paragraph results in an incomplete presentation, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Feather River Community College District at June 30, 2002, and the results of its operations and cash flows of its proprietary fund for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining financial statements listed in the foregoing Table of Contents are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements. Such combining financial statements have been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, except that the omission described in the preceding paragraph results in an incomplete presentation, are fairly stated in all material respects when considered in relation to the general purpose financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

In accordance with Government Auditing Standards, we have also issued a report dated November 1, 2002 on our consideration of Feather River Community College District's internal control structure 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.

Perry-Smith LLP

Sacramento, California
November 1, 2002

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

COMBINED BALANCE SHEET

ALL FUND TYPES AND ACCOUNT GROUP

June 30, 2002

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Type</u>	<u>Fiduciary Funds</u>	<u>Account Group</u>	<u>Total (Memoran- dum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Outlay Projects</u>			<u>General Long-Term Debt</u>	
ASSETS							
Cash and investments (Note 2):							
Cash in County Treasury	\$ 1,375,627	\$ 62,928	\$ 413,251	\$ 74,440	\$ 434,346		\$ 2,360,592
Cash on hand and in banks	36,122	79		45,542	8,202		89,945
Accounts receivable:							
Federal government	135,711	991			4,240		140,942
State government	292,999	135	1,275				294,409
Local government and other	178,844	77		597	3,934		183,452
Due from other funds (Note 3)	7,425			1,023			8,448
Inventories				28,442			28,442
Prepaid expenditures	59,085						59,085
Equipment and fixtures, net				241	277		518
Amount available for health benefits for retirees (Note 4)						\$ 427,318	427,318
Amount to be provided for debt retirement and health benefits for retirees (Note 4)						1,287,377	1,287,377
Total assets	\$ 2,085,813	\$ 64,210	\$ 414,526	\$ 150,285	\$ 450,999	\$ 1,714,695	\$ 4,860,528

(Continued)

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

COMBINED BALANCE SHEET

ALL FUND TYPES AND ACCOUNT GROUP

(Continued)
June 30, 2002

	<u>Governmental Fund Types</u>			<u>Proprietary Fund Type</u>	<u>Fiduciary Funds</u>	<u>Account Group</u>	<u>Total (Memoran- dum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Outlay Projects</u>			<u>General Long-Term Debt</u>	
LIABILITIES AND FUND EQUITY							
Liabilities:							
Accounts payable	\$ 245,464	\$ 394	\$ 6,434	\$ 2,090	\$ 6,849		\$ 261,231
Due to other funds (Note 3)	1,023			2,425	5,000		8,448
Accrued payroll and related liabilities	87,657						87,657
Deferred revenue	309,730						309,730
Deposits	9,133						9,133
Other liabilities				45			45
Capitalized lease obligations (Note 5)						\$ 542,586	542,586
Note payable (Note 5)						432,670	432,670
Health benefits payable to current retirees (Note 5)						545,540	545,540
Accrued vacation (Note 5)						193,899	193,899
Total liabilities	653,007	394	6,434	4,560	11,849	1,714,695	2,390,939
Fund equity:							
Contributed capital					50,035		50,035
Retained earnings				145,725			145,725
Fund balances:							
Reserved (Note 6)	59,085				432,710		491,795
Unreserved	1,373,721	63,816	408,092		(43,585)		1,802,034
Total fund equity	1,432,806	63,816	408,092	145,725	439,150		2,489,589
Total liabilities and fund equity	\$ 2,085,813	\$ 64,210	\$ 414,526	\$ 150,285	\$ 450,999	\$ 1,714,695	\$ 4,880,528

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

FEATHER RIVER COMMUNITY COLLEGE DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
AND FIDUCIARY FUNDS

For the Year Ended June 30, 2002

	<u>Governmental Fund Types</u>				<u>Total (Memoran- dum Only)</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Outlay Projects</u>	<u>Fiduciary Funds</u>	
Revenues:					
Federal sources	\$ 619,758	\$ 8,527		\$ 430,204	\$ 1,058,489
State sources	6,813,568	76,954	\$ 35,854	29,671	6,956,047
Local sources	<u>3,824,316</u>	<u>28,859</u>	<u>260,290</u>	<u>22,500</u>	<u>4,135,965</u>
Total revenues	<u>11,257,642</u>	<u>114,340</u>	<u>296,144</u>	<u>482,375</u>	<u>12,150,501</u>
Expenditures:					
Academic salaries	3,385,201				3,385,201
Classified salaries	2,530,214	127,268	324		2,657,806
Employee benefits (Notes 8 and 9)	1,308,846	48,174	31	39,792	1,396,843
Books and supplies	369,214	9,909		1,512	380,635
Contract services and operating expenditures	1,779,754	1,724	4,470	3,892	1,789,840
Student financial aid				460,708	460,708
Capital outlay	611,053		368,475		979,528
Debt service:					
Principal reduction (Note 5)	244,648				244,648
Interest	71,300				71,300
Other payments	<u>124,053</u>				<u>124,053</u>
Total expenditures	<u>10,424,283</u>	<u>187,075</u>	<u>373,300</u>	<u>505,904</u>	<u>11,490,562</u>
Excess (deficiency) of revenues over (under) expenditures	<u>833,359</u>	<u>(72,735)</u>	<u>(77,156)</u>	<u>(23,529)</u>	<u>659,939</u>
Other financing sources (uses):					
Proceeds from capitalized lease obligations (Note 5)	172,034				172,034
Proceeds from sale of fixed assets			1,700		1,700
Operating transfers in (Note 3)		77,724	366,648	98,347	542,719
Operating transfers out (Note 3)	<u>(542,719)</u>				<u>(542,719)</u>
Total other financing sources (uses)	<u>(370,685)</u>	<u>77,724</u>	<u>368,348</u>	<u>98,347</u>	<u>173,734</u>
Excess of revenues and other financing sources over expenditures and other uses	462,674	4,989	291,192	74,818	833,673
Fund balances, July 1, 2001	<u>970,132</u>	<u>58,827</u>	<u>116,900</u>	<u>364,332</u>	<u>1,510,191</u>
Fund balances, June 30, 2002	<u>\$ 1,432,806</u>	<u>\$ 63,816</u>	<u>\$ 408,092</u>	<u>\$ 439,150</u>	<u>\$ 2,343,864</u>

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

FEATHER RIVER COMMUNITY COLLEGE DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUND TYPES

For the Year Ended June 30, 2002

	General		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Federal sources	\$ 738,972	\$ 619,758	\$ (119,214)
State sources	7,754,475	6,813,568	(940,907)
Local sources	<u>3,108,638</u>	<u>3,824,316</u>	<u>715,678</u>
Total revenues	<u>11,602,085</u>	<u>11,257,642</u>	<u>(344,443)</u>
Expenditures:			
Academic salaries	3,597,664	3,385,201	212,463
Classified salaries	2,720,193	2,530,214	189,979
Employee benefits	1,392,500	1,308,846	83,654
Books and supplies	435,187	369,214	65,973
Contract services and operating expenditures	2,041,319	1,779,754	261,565
Capital outlay	954,549	611,053	343,496
Debt service:			
Principal reduction	324,873	244,848	80,225
interest	72,061	71,300	761
Other payments	126,996	124,053	2,943
Appropriations for contingencies	<u>694,278</u>	<u> </u>	<u>694,278</u>
Total expenditures	<u>12,359,620</u>	<u>10,424,283</u>	<u>1,935,337</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(757,535)</u>	<u>833,359</u>	<u>1,590,894</u>
Other financing sources (uses):			
Proceeds from capitalized lease obligations	331,894	172,034	(159,860)
Proceeds from sale of fixed assets			
Operating transfers in			
Operating transfers out	<u>(544,491)</u>	<u>(542,719)</u>	<u>1,772</u>
Total other financing sources (uses)	<u>(212,597)</u>	<u>(370,685)</u>	<u>(158,088)</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other uses	(970,132)	462,674	<u>\$ 1,432,806</u>
Fund balances, July 1, 2001	<u>970,132</u>	<u>970,132</u>	
Fund balances, June 30, 2002	<u>\$ -</u>	<u>\$ 1,432,806</u>	

(Continued)

FEATHER RIVER COMMUNITY COLLEGE DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUND TYPES
(Continued)
For the Year Ended June 30, 2002

	<u>Special Revenue</u>		<u>Variance Favorable (Unfavorable)</u>
	<u>Budget</u>	<u>Actual</u>	
Revenues:			
Federal sources	\$ 8,000	\$ 8,527	\$ 527
State sources	74,134	76,954	2,820
Local sources	<u>18,000</u>	<u>28,859</u>	<u>10,859</u>
Total revenues	<u>100,134</u>	<u>114,340</u>	<u>14,206</u>
Expenditures:			
Academic salaries			
Classified salaries	127,883	127,268	615
Employee benefits	48,198	46,174	24
Books and supplies	10,865	9,909	856
Contract services and operating expenditures	2,576	1,724	852
Capital outlay	490		490
Debt service:			
Principal reduction			
Interest			
Other payments			
Appropriations for contingencies	<u>45,435</u>		<u>45,435</u>
Total expenditures	<u>235,447</u>	<u>187,075</u>	<u>48,372</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(135,313)</u>	<u>(72,735)</u>	<u>62,578</u>
Other financing sources (uses):			
Proceeds from capitalized lease obligations			
Proceeds from sale of fixed assets			
Operating transfers in	76,486	77,724	1,238
Operating transfers out			
Total other financing sources (uses)	<u>76,486</u>	<u>77,724</u>	<u>1,238</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other uses	(58,827)	4,989	<u>\$ 63,816</u>
Fund balances, July 1, 2001	<u>58,827</u>	<u>58,827</u>	
Fund balances, June 30, 2002	<u>\$ -</u>	<u>\$ 63,816</u>	

(Continued)

FEATHER RIVER COMMUNITY COLLEGE DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUND TYPES
(Continued)
For the Year Ended June 30, 2002

	Capital Outlay Projects		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Federal sources			
State sources	\$ 67,476	\$ 35,854	\$ (31,622)
Local sources	311,500	260,290	(51,210)
Total revenues	378,976	296,144	(82,832)
Expenditures:			
Academic salaries			
Classified salaries	325	324	1
Employee benefits	31	31	
Books and supplies			
Contract services and operating expenditures	16,477	4,470	12,007
Capital outlay	636,306	368,475	467,831
Debt service:			
Principal reduction			
Interest			
Other payments			
Appropriations for contingencies	11,065		11,065
Total expenditures	664,224	373,300	490,924
(Deficiency) excess of revenues (under) over expenditures	(485,248)	(77,156)	408,092
Other financing sources (uses):			
Proceeds from capitalized lease obligations			
Proceeds from sale of fixed assets	1,700	1,700	
Operating transfers in	366,648	366,648	
Operating transfers out			
Total other financing sources (uses)	368,348	368,348	
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other uses	(116,900)	291,192	\$ 408,092
Fund balances, July 1, 2001	116,900	116,900	
Fund balances, June 30, 2002	\$ -	\$ 408,092	

(Continued)

FEATHER RIVER COMMUNITY COLLEGE DISTRICT
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

ALL GOVERNMENTAL FUND TYPES
(Continued)
For the Year Ended June 30, 2002

	Total (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Federal sources	\$ 746,972	\$ 628,285	\$ (118,687)
State sources	7,896,085	6,926,376	(969,709)
Local sources	<u>3,438,138</u>	<u>4,113,465</u>	<u>675,327</u>
Total revenues	<u>12,081,195</u>	<u>11,668,126</u>	<u>(413,069)</u>
Expenditures:			
Academic salaries	3,597,664	3,385,201	212,463
Classified salaries	2,848,401	2,657,806	190,595
Employee benefits	1,440,729	1,357,051	83,678
Books and supplies	446,052	379,123	66,929
Contract services and operating expenditures	2,060,372	1,785,948	274,424
Capital outlay	1,791,345	979,528	811,817
Debt service:			
Principal reduction	324,873	244,648	80,225
Interest	72,061	71,300	761
Other payments	126,996	124,053	2,943
Appropriations for contingencies	<u>750,798</u>	<u>750,798</u>	<u>0</u>
Total expenditures	<u>13,459,291</u>	<u>10,984,658</u>	<u>2,474,633</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(1,378,096)</u>	<u>683,468</u>	<u>2,061,564</u>
Other financing sources (uses):			
Proceeds from capitalized lease obligations	331,894	172,034	(159,860)
Proceeds from sale of fixed assets	1,700	1,700	0
Operating transfers in	443,134	444,372	1,238
Operating transfers out	<u>(544,491)</u>	<u>(542,719)</u>	<u>1,772</u>
Total other financing sources (uses)	<u>232,237</u>	<u>75,387</u>	<u>(156,850)</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other uses	<u>(1,145,859)</u>	<u>758,855</u>	<u>\$ 1,904,714</u>
Fund balances, July 1, 2001	<u>1,145,859</u>	<u>1,145,859</u>	
Fund balances, June 30, 2002	<u>\$ -</u>	<u>\$ 1,904,714</u>	

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

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN RETAINED EARNINGS**

CAMPUS CENTER FUND

For the Year Ended June 30, 2002

Operating revenues:	
Sales	\$ <u>264,813</u>
Operating expenses:	
Cost of goods sold	186,175
Classified salaries	55,869
Employee benefits	12,132
Contract services and operating expenses	<u>3,457</u>
Total operating expenses	<u>257,633</u>
Operating income	7,180
Nonoperating revenues:	
Interest	<u>2,319</u>
Net income	9,499
Retained earnings, July 1, 2001	<u>136,226</u>
Retained earnings, June 30, 2002	\$ <u>145,725</u>

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

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

CAMPUS CENTER FUND

For the Year Ended June 30, 2002

Cash flows from operating activities:	
Operating income	\$ 7,180
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	80
Changes in operating assets and liabilities:	
Decrease in accounts receivable	240
Decrease in due from other funds	9,733
Decrease in inventory	12,766
Decrease in accounts payable	(1,525)
Decrease in due to other funds	(505)
	<u>27,969</u>
Net cash provided by operating activities	
Cash flows used in capital and related financing activities:	
Capital expenditures	<u>(187)</u>
Cash flows provided by investing activities:	
Interest income	<u>2,319</u>
	30,101
Increase in cash and cash equivalents	
Cash and cash equivalents balance, July 1, 2001	<u>89,881</u>
Cash and cash equivalents balance, June 30, 2002	<u>\$ 119,982</u>

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

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accounting policies of Feather River Community College District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants.

Reporting Entity

The Board of Trustees (Board) is the level of government which has governance responsibilities over all activities related to public post-secondary education within the jurisdiction of Feather River Community College District. The Board receives funding from local, State and Federal government sources and must comply with the concurrent requirements of these funding source entities. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of *Governmental Accounting and Financial Reporting Standards*, since Board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, based on the above criteria, no other entities are included in the general purpose financial statements of Feather River Community College District as component units.

Fund Structure

The accounts of the District are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. The various funds are summarized by type in the financial statements. The following fund types and account group are used by the District:

A - Governmental Fund Types

1 - General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and capital improvement costs that are not paid through other funds are paid from the General Fund.

2 - Special Revenue Fund:

The Child Development Fund is a special revenue fund used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Structure (Continued)

A - Governmental Fund Types (Continued)

3 - Capital Outlay Projects Fund:

The Capital Outlay Projects Fund is used to account for the payment for the acquisition or construction of major site improvements and the construction of major capital facilities which by their nature, may require more than one budgeting cycle for completion.

B - Proprietary Fund Type

1 - Campus Center Fund:

The Campus Center Fund is an enterprise fund used to account for the financial activity of the campus bookstore. The Campus Center's normal operating cycle is the fiscal year ended June 30. The financial position, results of operations and cash flows have been included in these financial statements.

C - Fiduciary Fund Types

The Student Financial Aid Fund, Associated Students Fund and Retirement Benefits Trust Fund are accounted for as expendable trust funds.

1 - Student Financial Aid Fund:

The Student Financial Aid Fund accounts for the following student grant activities:

- Pell Grant Program
- Supplemental Educational Opportunity Grants Program
- Extended Opportunity Programs and Services

Unreimbursed expenditures due from grantor agencies are reflected in the financial statements as receivables. Cash received from grantor agencies in excess of related program expenditures is recorded as a liability.

NOTES TO FINANCIAL STATEMENTS
(Continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fund Structure (Continued)

C - Fiduciary Fund Types (Continued)

2 - **Associated Students Fund:**

The Associated Students Fund accounts for the receipt and disbursement of monies from student activity organizations. These organizations and their various suborganizations exist at the explicit approval of, and are subject to revocation by, the District's governing board. A separate account is maintained for each authorized student activity or club.

3 - **Retirement Benefits Trust Fund:**

The Retirement Benefits Trust Fund is an expendable trust established in July 1995, to accumulate funds for the payment of medical insurance premiums for eligible future retirees.

D - Account Group

1 - **General Long-Term Debt Account Group:**

This group of accounts is established to account for all long-term debt of the District, including the long-term obligation for accrued vacation.

Basis of Accounting

The District uses the modified accrual basis of accounting to record transactions for all of its fund types, except the proprietary fund which uses the accrual basis. Under the modified accrual basis of accounting, expenditures are recorded when the liability is incurred. Revenues are recognized when measurable and available except for certain revenue sources which are not susceptible to accrual. Material revenues in the following categories are considered susceptible to accrual because they are both measurable and available to finance expenditures of the current period:

- Federal Categorical Programs
- State Categorical Programs
- State Apportionment
- Interest
- Lottery

The following revenues are not susceptible to accrual because they are not both measurable and available to finance expenditures of the current period:

- Mandated cost claims
- Property taxes

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

For the purposes of the financial statements, cash equivalents are defined as financial instruments with an original maturity of three months or less.

Fair Value of Pooled Investments

The District records its investments in Plumas County Treasury at fair value. Changes in fair value are reported as revenue in the statement of revenues, expenditures/ expenses and changes in fund balances/retained earnings. The fair value of investments, including the Plumas County Treasury external investment pool, at June 30, 2002 approximated their carrying value.

Inventories

Inventories included in the Campus Center Fund are stated at average cost which does not exceed replacement cost.

Fixed Assets

The District is not required by the California Community College Accounting Manual to capitalize fixed assets purchased by governmental fund types. Consequently, fixed asset purchases, except for the Campus Center and Associated Students Funds, are recorded as expenditures at the time of purchase and are not capitalized in a separate account group. This method of recording fixed assets is contrary to generally accepted accounting principles.

Equipment and fixtures within the Campus Center and Associated Students Funds are stated at cost. Depreciation is provided over the estimated useful lives of the respective assets on the straight-line basis. At June 30, 2002, accumulated depreciation amounted to \$21,164 and \$3,548 for each fund, respectively.

Accrued Vacation and Sick Leave

Accrued vacation in the amount of \$193,899 is recorded as a liability and also as an amount to be provided by future operations in the General Long-Term Debt Group of accounts. The liability is for earned but unused benefits. The amount to be provided by future operations represents the total amount that would be required to be provided from the general operating revenues of the District if all the benefits were to be paid currently. The amount actually paid during the current fiscal year is recorded as an operating expenditure in the General Fund.

Sick leave benefits are not recorded as liabilities on the books of the District. The District's policy is to record amounts as operating expenditures in the period sick leave is taken.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue and Program Advances

Revenue from Federal, State and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

Interfund Activity

Transactions between funds of the District are generally recorded as Interfund Transfers. At year end, the unpaid balance resulting from such transactions is shown as due to and due from applicable funds.

Contributed Capital

Contributed capital was recorded in the Student Financial Aid Fund to reflect the student loans receivable contributed to the District in the deannexation agreement with Peralta Community College District.

Budgetary Practices

The budgetary and financial accounts of the District have been recorded and maintained in accordance with the Chancellor's Office of the California Community College's *Budget and Accounting Manual*. The District's adjusted budget is the initial budget and any revisions to the budget that have been approved by the Board of Trustees. Encumbrance accounting is utilized for budgetary control purposes.

Property Taxes

Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on or before December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. Plumas County bills and collect taxes for the District. Tax revenues are recognized by the District when received.

Memorandum Total Columns on Combined Statements

Total columns on the combined statements are captioned "Total (Memorandum Only)" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position, results of operations, nor changes in fund balance in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures or expenses during the reporting period. Accordingly, actual results may differ from those estimates.

2. CASH AND INVESTMENTS

Cash in County Treasury	\$ 2,360,592
Cash on hand and in banks	<u>89,945</u>
Total cash	<u>\$ 2,450,537</u>

As provided for by the Education Code Section 41001, a significant portion of the District's cash balances of most funds is deposited with the County Treasurer for the purpose of increasing interest earnings through County investment activities. Each respective fund's share of the total pooled cash is included in the accompanying combined balance sheet under the caption "Cash in County Treasury." Interest earned on such pooled cash balances is distributed to the participating funds based upon each fund's average cash balance during the distribution period. The California Government Code requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an agency's deposits. California law also allows financial institutions to secure an agency's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an agency's total deposit and collateral is considered to be held in the name of the District. All cash held by financial institutions is entirely insured by the FDIC or collateralized.

In accordance with applicable State laws, the Plumas County Treasurer may invest in derivative securities. However, at June 30, 2002, the Plumas County Treasurer has indicated that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

2. CASH AND INVESTMENTS (Continued)

Under provision of the District's policy, and in accordance with Sections 53601 and 53602 of the California Government Code, the District may invest in the following types of investments:

- Securities of the U.S. Government, or its agencies
- Small Business Administration Loans
- Negotiable Certificates of Deposit
- Bankers' Acceptances
- Commercial Paper
- Local Agency Investment Fund (State Pool) Deposits
- Passbook Savings Account Demand Deposits
- Repurchase Agreements

Cash in banks and specifically identifiable investments are classified as to credit risk by three categories and summarized below as follows:

Category 1 - Includes deposits and investments that are insured or registered or for which securities are held by the District or its agent in the District's name and deposits insured or collateralized with securities held by the District.

Category 2 - Includes uninsured and unregistered deposits and investments for which the securities are held by the broker's or dealer's trust department or agent in the District's name and deposits collateralized with securities held by the pledging financial institution's trust department or agent in the District's name.

Category 3 - Includes uninsured and unregistered deposits and investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the District's name.

	Category				
	1	2	3	Bank Balance	Book Balance
Cash in County Treasury		\$ 2,360,592		\$ 2,360,592	\$ 2,360,592
Cash on hand and in banks	\$ 74,186			74,186	69,945
	\$ 74,186	\$ 2,360,592	\$ -	\$ 2,434,778	\$ 2,450,537

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

**NOTES TO FINANCIAL STATEMENTS
(Continued)**

3. INTERFUND ACTIVITY

Interfund due from/due to amounts at June 30, 2002 and operating transfers for the year then ended were as follows:

	<u>Interfund Balances</u>		<u>Interfund Operating Transfers</u>	
	<u>Due From</u>	<u>Due To</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund	\$ 7,425	\$ 1,023		\$ 542,719
Special Revenue Fund			\$ 77,724	
Capital Outlay Projects Fund			366,648	
Proprietary Fund	1,023	2,425		
Fiduciary Funds		5,000	98,347	
	<u>\$ 8,448</u>	<u>\$ 8,448</u>	<u>\$ 542,719</u>	<u>\$ 542,719</u>

4. AMOUNTS AVAILABLE AND TO BE PROVIDED FOR DEBT RETIREMENT AND HEALTH BENEFITS FOR RETIREES

The amount available for health benefits for retirees of \$427,318 in the General Long-Term Debt Account Group represents the fund balance of the Retirement Benefits Trust Fund.

The amount to be provided for debt retirement and health benefits for retirees, \$1,287,377, represents amounts required to be collected in the future in order to make required payments on capitalized lease obligations (Note 5), long-term notes payable for the acquisition of the District buildings and equipment (Note 5), accrued vacation (Note 5), and the cost of post-retirement health benefits for retirees (Notes 5 and 9).

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. LONG-TERM DEBT

Capitalized Lease Obligations

The District leases certain equipment under long-term lease purchase agreements. The following is a schedule of future minimum lease payments for capitalized lease obligations as of June 30, 2002:

<u>Year Ending June 30,</u>		
2003	\$	165,053
2004		144,653
2005		119,501
2006		119,240
2007		118,897
Thereafter		<u>162,123</u>
		829,467
Less amount representing interest		(128,915)
Less amount not yet drawn		<u>(157,966)</u>
Net present value of minimum lease payments	\$	<u>542,586</u>

Note Payable

in accordance with the deannexation agreement with Peralta Community College District, the District has a note payable with a remaining balance of \$432,670 as of June 30, 2002. This note is for all real property, buildings, equipment and existing supplies pertaining to the Feather River College Campus.

A schedule of the District's future obligations under the note payable agreement is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 155,673	\$ 4,327	\$ 160,000
2004	157,230	2,770	160,000
2005	<u>119,767</u>	<u>1,198</u>	<u>120,965</u>
	<u>\$ 432,670</u>	<u>\$ 8,295</u>	<u>\$ 440,965</u>

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

5. LONG-TERM DEBT (Continued)

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

	Balance July 1, 2001	Additions	Deductions	Balance June 30, 2002
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Capitalized lease obligations	\$ 461,068	\$ 172,034	\$ 90,516	\$ 542,586
Note payable	586,802		154,132	432,670
Health benefits payable to current retirees (Note 9)	556,895		11,355	545,540
Accrued vacation	<u>169,289</u>	<u>24,610</u>	<u> </u>	<u>193,899</u>
	<u>\$ 1,774,054</u>	<u>\$ 196,644</u>	<u>\$ 256,003</u>	<u>\$ 1,714,695</u>

6. RESERVED FUND BALANCES

The reserved fund balances consisted of the following at June 30, 2002:

	General Fund	Associated Students Fund	Retirement Benefits Trust Fund
	<u> </u>	<u> </u>	<u> </u>
Reserved for prepaid expenditures	\$ 59,085		
Reserved for payment of health benefits of retirees			\$ 427,318
Reserved for funds of the Associated Students		<u>\$ 5,392</u>	
	<u>\$ 59,085</u>	<u>\$ 5,392</u>	<u>\$ 427,318</u>

7. JOINT POWERS AGREEMENTS

The District is a member of Northern California Community Colleges Self Insurance Authority (NCCCSIA), for the operation of a common risk management and insurance program. The program covers workers' compensation and property/liability insurance for its members.

The following is the summary of financial information for NCCCSIA at June 30, 2001 (the latest information available):

Total assets	\$ 10,775,544
Total liabilities	\$ 1,403,049
Total retained earnings	\$ 9,372,495
Total revenues	\$ 4,072,631
Total expenses	\$ 1,402,124

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

7. JOINT POWERS AGREEMENTS (Continued)

The District is also a member of Tri-County Schools Insurance Group (TRI-SIG). This is a Joint Power Authority providing health insurance. The following is a summary of financial information for TRI-SIG at June 30, 2002:

Total assets	\$ 10,445,415
Total liabilities	\$ 6,773,173
Total retained earnings	\$ 3,672,242
Total revenues	\$ 30,467,481
Total expenses	\$ 28,804,675

In addition, the District is a member of Statewide Association of Community Colleges (SWACC). This is a Joint Power Authority which provides excess liability coverage. The following is a summary of financial information at June 30, 2001 (the latest information available):

Total assets	\$ 15,510,112
Total liabilities	\$ 5,781,528
Total retained earnings	\$ 9,728,584
Total revenues	\$ 6,509,958
Total expenses	\$ 6,054,146

The relationship between the District and the joint powers authorities is such that the joint powers authorities are not component units of the District for financial reporting purposes.

8. EMPLOYEE RETIREMENT SYSTEMS

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

Plan Description and Provisions

State Teachers' Retirement System (STRS)

All full-time and some part-time academic employees are eligible to participate in STRS, a cost-sharing multiple-employer contributory public employee retirement system. Employees attaining the age of 60 with five years of credited California service (service) are eligible for normal retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with 30 years of service. Disability benefits of up to 90 percent of final compensation are available to members with five years of service. After five years of service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

State Teachers' Retirement System (STRS) (Continued)

Benefit provisions for STRS are established by the State Teachers' Retirement Law (Part 13 of the California Education Code, Sec. 22000 et seq.). STRS issues a separate comprehensive annual financial report. Copies of the STRS annual financial report may be obtained from the STRS Executive Office at 7667 Folsom Boulevard, Sacramento, California 95826.

California Public Employees' Retirement System (CalPERS)

All full-time and some part-time classified employees participate in CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The District is part of a "cost sharing" pool within CalPERS. One actuarial valuation is performed for those employers participating in the pool, and the same contribution rate applies to each. Employees are eligible for retirement at the age of 55 and are entitled to a monthly benefit of two percent of final compensation for each year of service credit. Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement may begin at age 50 with a reduced benefit rate, or after age 55 to 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after 5 years of credited service. Upon separation from the District, members' accumulated contributions are refundable with interest credited through the date of separation.

Benefit provisions for CalPERS are established by the Public Employees' Retirement Law (Part 3 of the California Government Code, Sec. 20000 et seq.). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, California 95814.

Funding Policy

The District is required by statute to contribute 8.25 percent of covered gross salary expenditures to STRS. The District was not required by statute to make contributions to CalPERS during the years ended June 30, 2000, 2001 and 2002. Participants are required to contribute 8.0 percent and 7.0 percent of covered gross salary to STRS and CalPERS, respectively. The District's employer contributions to STRS for the years ended June 30, 2000, 2001 and 2002 were \$160,147, \$184,948 and \$208,238, respectively. The District's employer contributions to STRS met the required contribution rates set by law.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Zahorik Tax Shelter Annuity Plan

Effective January 1, 1993, the District established alternative retirement plan options for part-time faculty as mandated by the Omnibus Budget Reconciliation Act of 1990. The District allows part-time and substitute employees to select coverage under either social security or the alternative retirement plan. Under the Zahorik Tax Shelter Annuity Plan, the District and the employee are required to each contribute 3.75% of the employee's earnings. For the year ended June 30, 2002, the District contributed \$1,904 for the 9 employees participating in the plan.

9. POST-RETIREMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 8, the District provides retiree and dependent medical coverage to eligible employees who retire from the District. Duration of benefits is calculated on a prorata basis, up to a maximum of 10 years, based on years of service. The District pays a set amount each month towards the cost of the medical coverage. Any costs in excess of this amount will be paid by the retiree.

Expenditures for post-retirement health care benefits for six of the current retirees are recognized as the premiums are paid. During the year ended June 30, 2002, expenditures of \$73,618 were recognized. The District funds the expenditures on the pay-as-you-go method.

For employees hired before August 1, 1994, a fund was established in 1995-96 to accumulate funds to pay for the District's share of future medical premiums of eligible future retirees. An actuarial valuation was performed as of September 12, 2002, to determine the estimated cost of providing the above stated benefits to current employees upon retirement. The total unfunded past service post-retirement health care benefits was calculated at \$118,222. As of June 30, 2002, \$427,318 has been accumulated in the Retirement Benefits Fund.

On December 6, 1996, the District entered into a settlement agreement with the Feather River College Federation of Teachers. The agreement requires the District to provide lifetime post-retirement medical benefits to the eighteen academic employees who were hired prior to 1990. The costs to the District will be financed from the savings resulting from the differences in salaries paid to retiring faculty members and their replacements for an eleven year period. These savings will be deposited into a separate restricted fund for future payment of the benefits. In the event the savings are not adequate to cover the cost of the benefits and a deficit in the fund results, the eighteen academic employees will be required to pay a monthly assessment to cure the deficit. The estimated future costs associated with this agreement have not been determined.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO FINANCIAL STATEMENTS

(Continued)

10. SUBSEQUENT EVENTS

On July 2, 2002, the District issued a \$780,000 Tax and Revenue Anticipation Note (TRAN) maturing June 25, 2003, with interest at 3.00% to provide for anticipated cash flow deficits from operations. The TRAN is a general obligation of the District, and is payable from revenues and cash receipts to be generated by the District during the fiscal year ended June 30, 2003.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

COMBINING BALANCE SHEET

ALL FIDUCIARY FUNDS

June 30, 2002

	<u>Student Financial Aid</u>	<u>Associated Students</u>	<u>Retirement Benefits Trust</u>	<u>Total</u>
ASSETS				
Cash in County Treasury	\$ 7,028		\$ 427,318	\$ 434,346
Cash on hand and in banks	3,131	\$ 5,071		8,202
Accounts receivable:				
Federal government	4,240			4,240
Local governments and other	3,884	50		3,934
Equipment and fixtures, net		<u>277</u>		<u>277</u>
Total assets	<u>\$ 18,283</u>	<u>\$ 5,398</u>	<u>\$ 427,318</u>	<u>\$ 450,999</u>
LIABILITIES AND FUND EQUITY				
Liabilities:				
Accounts payable	\$ 6,843	\$ 6		\$ 6,849
Due to other funds	<u>5,000</u>			<u>5,000</u>
Total liabilities	<u>11,843</u>	<u>6</u>		<u>11,849</u>
Fund equity:				
Contributed capital	50,035			50,035
Fund (deficit) balances:				
Reserved		5,392	\$ 427,318	432,710
Unreserved	<u>(43,595)</u>			<u>(43,595)</u>
Total fund equity	<u>6,440</u>	<u>5,392</u>	<u>427,318</u>	<u>439,150</u>
Total liabilities and fund equity	<u>\$ 18,283</u>	<u>\$ 5,398</u>	<u>\$ 427,318</u>	<u>\$ 450,999</u>

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

FEATHER RIVER COMMUNITY COLLEGE DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

ALL FIDUCIARY FUNDS

For the Year Ended June 30, 2002

	Student Financial Aid	Associated Students	Retirement Benefits Trust	Total
Revenues:				
Federal sources	\$ 430,204			\$ 430,204
State sources	29,671			29,671
Local sources	_____	\$ 4,708	\$ 17,792	22,500
Total revenues	459,875	4,708	17,792	482,375
Expenditures:				
Employee benefits			39,792	39,792
Books and supplies		1,512		1,512
Contract services and operating expenditures		3,892		3,892
Student financial aid	460,708	_____	_____	460,708
Total expenditures	460,708	5,404	39,792	505,904
Deficiency of revenues under expenditures	(833)	(696)	(22,000)	(23,529)
Other financing sources:				
Operating transfers in	3,653	_____	94,694	98,347
Excess (deficiency) of revenues and other financing sources over (under) expend- itures	2,820	(696)	72,694	74,818
Fund equity, July 1, 2001	3,620	6,088	354,624	364,332
Fund equity, June 30, 2002	\$ 6,440	\$ 5,392	\$ 427,318	\$ 439,150

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

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SUPPLEMENTAL INFORMATION

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTAL INFORMATION**

Board of Trustees
Feather River Community College District
Quincy, California

We have audited the general purpose financial statements of Feather River Community College District as of and for the year ended June 30, 2002, and have issued our report thereon dated November 1, 2002. In our report, our opinion was qualified because of the omission of the General Fixed Assets Group of accounts. These general purpose financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the *California Community Colleges Contracted District Audit Manual*, presented by the Chancellor's office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying supplemental financial and statistical information including the Schedule of Federal Financial Awards and Schedule of State Financial Awards and the reports listed below, is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements of Feather River Community College District and includes the following schedules:

- Organization
- Schedule of Workload Measures for State General Apportionment
- Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements
- Schedule of General Fund Revenues and Expenditures for Restricted and Unrestricted Programs

The information in these schedules has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Perry-Smith LLP

Sacramento, California
November 1, 2002

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

ORGANIZATION

June 30, 2002

Feather River Community College District consists of one community college located in Quincy, California. Geographically, the District encompasses all of Plumas County with the exception of the Southeastern corner of the County, near Calpine, California.

The District provides the first two years of instruction transferable to accredited four-year colleges and universities as well as vocational and technical education.

The Board of Trustees and District Administration for the fiscal year ended June 30, 2002 was composed of the following members:

BOARD OF TRUSTEES

<u>Members</u>	<u>Office</u>	<u>Term Expires</u>
Dr. Irene Burkey	President	November 2004
Mr. William Elliott	Vice-President	November 2006
Ms. Maxine Cullen	Member	November 2002
Mr. John Sheehan	Member	November 2004
Dr. Robert Marshall	Member	November 2004

DISTRICT ADMINISTRATION

Dr. Susan Carroll
President/District Superintendent

Mr. Ron Groh
Assistant Superintendent/Business Services

Dr. Michael Bagley
Dean of Instruction

Mr. Paul Thein
Dean of Students

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FEDERAL FINANCIAL AWARDS

For the Year Ended June 30, 2002

<u>Federal Grantor/Pass-Through</u>	<u>Federal Catalog</u>	<u>Federal Expenditures</u>
Vocational and Applied Technology Education and Rehabilitation Acts:		
Title II - Basic Grants:		
Part C VATEA	84.048	\$ 49,618
Higher Education Act:		
College Work Study	84.003	24,770
Supplemental Educational Opportunity Grant	84.007	406,047
Pell Grant Program	84.063	20,157
Pell Administration Allowance	84.063	970
Youth for Understanding	Unknown	15,071
Forest Reserve Fund	10.665	380,648
Child Care Food Program	10.558	8,527
CCCCAOE	11.000	3,370
Partners in Education	19.407	35
TRIO/SSS	84.042A	97,096
Child Development Training	93.575	2,500
TANF	93.867	12,500
Ameri-Corp	94.006	37,180
		<hr/>
Total Federal		\$ 1,058,489

See accompanying notes to
supplemental information.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL AWARDS

For the Year Ended June 30, 2002

	Program Entitlements			Program Revenues			Program Expenditures	
	Current Year	Prior Year Carryover	Total	Cash Received	Accounts Receivable	Deferred Revenue		Total
Disabled Student Program and Services	\$ 297,986		\$ 297,986	\$ 297,986		\$ 7	\$ 297,979	\$ 297,979
Extended Opportunity Program and Services	212,510		212,510	212,510			212,510	212,510
Cooperative Agencies Resources								
Education	43,042		43,042	43,042			43,042	43,042
Staff Development	10,000	\$ 4,897	14,897	10,000		5,146	4,854	4,854
Staff Diversity	8,817		8,817	8,817			8,817	8,817
Student Financial Aid Administration	12,822		12,822	12,822			12,822	12,822
Child Development Program	75,866		75,866	75,866			75,866	75,866
Child Development Instructional Equipment	500		500	500			500	500
Child Care Food Program	589		589	454	\$ 135		589	589
Matriculation	62,790		62,790	62,790			62,790	62,790
Workability	67,700		67,700	44,677	18,020		62,697	62,697
Block Grant		8,405	8,405	8,405			8,405	8,405
Instructional Equipment	19,111	2,091	21,202	19,111		858	18,253	18,253
Transfer Ed./ Articulation	17,129		17,129	17,129		5,438	11,691	11,691
Cal Grants	35,431		35,431	35,431		6,748	28,683	28,683
Calworks	100,000		100,000	100,000		11,146	88,854	88,854
TANF	12,500		12,500	12,500			12,500	12,500
Telecommunication Grant	231,769	152,422	384,191	384,191		181,172	203,019	203,019
Student Success		13,902	13,902	7,423			7,423	7,423
Economic Development	50,000		50,000	42,000		8,837	33,163	33,163
TRDP	350,000		350,000	262,500	72,823		335,323	335,323
Boating Safety	15,000		15,000		15,000		15,000	15,000
Special Outreach Mini Grant	10,000		10,000		5,182		5,182	5,182
CAN Articulation	5,000		5,000					
TAMP		4,905	4,905					
Energy Conservation	52,745	33,083	85,828	85,828		50,264	35,564	35,564
Cascade Pacific Library Grant	3,000		3,000	3,000			3,000	3,000
CDE Early Childhood Mentor Program		1,664	1,664	1,663			1,663	1,663
California State Rural Health Assoc.		1,400	1,400	1,400			1,400	1,400
Total State programs				\$ 1,750,045	\$ 111,160	\$ 269,616	\$ 1,591,589	\$ 1,591,589

See accompanying notes to supplemental information.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT

Annualized Attendance as of June 30, 2002

	<u>Reported Data</u>	<u>Audit Adjustments</u>	<u>Revised Data</u>
Categories			
A. Credit full-time equivalent student (FTES)			
1. Weekly census	527		527
2. Daily census	187		187
3. Actual hours of attendance	759		759
4. Independent study/work experience	<u>20</u>		<u>20</u>
Total	<u>1,493</u>	<u>-</u>	<u>1,493</u>
B. Noncredit FTES			
1. Actual hours of attendance	5		5
C. Gross Square Footage			
1. Existing Facilities	85,059	-	85,059
2. New Facilities	-	-	-
D. FTES in New Facilities	-	-	-

See accompanying notes to
supplemental information.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT
(CCFS-311) WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2002

There were no adjustments proposed to any funds or account groups of the District.

**See accompanying notes to
supplemental information.**

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

**SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURES
FOR RESTRICTED AND UNRESTRICTED PROGRAMS**

For the Year Ended June 30, 2002

	<u>Restricted</u>	<u>Unrestricted</u>	<u>Total</u>
Revenues:			
Federal sources	\$ 239,075	\$ 380,683	\$ 619,758
State sources	1,528,086	5,285,482	6,813,568
Local sources	<u>277,593</u>	<u>3,546,723</u>	<u>3,824,316</u>
Total revenues	<u>2,044,754</u>	<u>9,212,888</u>	<u>11,257,642</u>
Expenditures:			
Academic salaries	309,103	3,076,098	3,385,201
Classified salaries	522,856	2,007,358	2,530,214
Employee benefits	180,389	1,128,457	1,308,846
Books and supplies	123,591	245,623	369,214
Contract services and operating expenditures	452,433	1,327,321	1,779,754
Capital outlay	387,971	223,082	611,053
Debt service:			
Principal reduction	13,262	231,386	244,648
Interest	2,060	69,240	71,300
Other payments	<u>124,005</u>	<u>48</u>	<u>124,053</u>
Total expenditures	<u>2,115,670</u>	<u>8,308,613</u>	<u>10,424,283</u>
(Deficiency) excess of revenues (under) over expenditures	<u>(70,916)</u>	<u>904,275</u>	<u>833,359</u>
Other financing sources (uses):			
Intrafund transfers	(27,497)	27,497	
Proceeds from capitalized lease obligations	172,034		172,034
Operating transfers out	<u>(22,820)</u>	<u>(519,899)</u>	<u>(542,719)</u>
Total other financing sources (uses)	<u>121,717</u>	<u>(492,402)</u>	<u>(370,685)</u>
Excess of revenues and other financing sources over expend- itures and other uses	50,801	411,873	462,674
Fund balances, July 1, 2001	<u>89,979</u>	<u>880,153</u>	<u>970,132</u>
Fund balances, June 30, 2002	<u>\$ 140,780</u>	<u>\$ 1,292,026</u>	<u>\$ 1,432,806</u>

See accompanying notes to
supplemental information.

FEATHER RIVER COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTAL INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedule of Federal and State Financial Awards

OMB Circular A-133 requires a disclosure of the financial activities of all Federally funded programs. To comply with A-133 and State requirements, this schedule was prepared by the District. Differences exist between the revenues shown on the schedule and the general purpose financial statements for the following reasons:

- Various program revenues are recorded in the current year for prior year claims, for which expenditures were incurred in prior years.
- Amounts reported as revenue may not represent final claim amounts, due to the timing of filing the final claims, and the closing of the District's records.

B - Schedule of Workload Measures for State General Apportionment

Full-time equivalent students is a measurement of the number of students attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to community college districts. This schedule provides information regarding the attendance of students based on various methods of accumulating attendance data.

C - Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the CCFS-311 to the audited financial statements.

D - Schedule of General Fund Revenues and Expenditures for Restricted and Unrestricted Programs

This schedule details the revenues and expenditures in the General Fund by restricted programs and general operating programs.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE REQUIREMENTS

**Board of Trustees
Feather River Community College District
Quincy, California**

We have audited the general purpose financial statements of Feather River Community College District, for the year ended June 30, 2002, and have issued our report thereon dated November 1, 2002. In our report, our opinion was qualified because of the omission of the General Fixed Assets Group of accounts.

Our audit was made in accordance with auditing standards generally accepted in the United States of America and the standards for financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In connection with our audit referred to above, we selected and tested transactions and records to determine the District's compliance with the following state laws and regulations in accordance with section 400 of the Chancellor's Office's *California Community Colleges Contracted District Audit Manual (CDAM)*:

- 1. The District maintained a separate and complete tabulation for each course section for student attendance, which is reported for State support.**
- 2. The District has adopted policies related to open courses as specified in California Code of Regulations Section 51006.**
- 3. The District claimed for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date.**
- 4. The District's salaries of classroom instructors equaled or exceeded 50 percent of the District's current expense of education in accordance with Section 84362 of the Education Code.**
- 5. Salaries of instructors teaching FTES generating classes, school counselors providing academic advisement, and financial aid officers conducting need analysis are not considered supportable charges against either Extended Opportunity Programs and Services (EOP&S) or Disabled Student Programs and Services (DSP&S) accounts unless their activities require them to perform additional functions for the EOP&S or DSP&S programs which are beyond the scope of services provided to all students in the normal performance of their regular duty assignments. These activities may be supported only to the extent of the supplementary services provided for EOP&S or DSP&S.**
- 6. The District's claim upon EOP&S funds excluded expenses incurred as administrative salaries unless the administrator exclusively functions in the capacity of the EOP&S Director or an exemption is specifically certified by the Chancellor's Office.**
- 7. The District has calculated appropriations limits annually and such calculations are supported by the amounts reported in the District's CCFS - 311 and CCFS - 320.**

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE REQUIREMENTS
(Continued)

8. The District has used local funds to support at least 75 percent of the District's matriculation activities and all expenditures related to matriculation must be consistent with the District's State-approved matriculation plan and identifiable within the ten activities approved by the State.
9. The District has charged an enrollment fee to all eligible students taking qualified classes. Students who are exempt from the non-resident tuition fee are charged the correct fee per course unit if the District claims the student as resident FTES for apportionment purposes. Fees collected are reported in the proper accounting period.
10. Classes which fall under instructional service agreements/contracts for which FTES are claimed are eligible for State funding.
11. The District complied with all state laws and regulations in accordance with Section 1(a)(3) of the California Education Code and Chapter 3.6, Section 15379.28 of the California Governmental Code and to the standard grant conditions in the administration of Economic Development Program grants.
12. The District complied with the Scheduled Maintenance Program as the amount spent in 1995-96 fiscal year for Operations and Maintenance of Plant increased by an amount equal to that provided by the State for the Scheduled Maintenance Program for the year being audited.

Management is responsible for the District's compliance with those requirements. Our responsibility is to express an opinion on the District's compliance based on our examination

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the District's compliance with specified requirements.

In our opinion, except for the item noted in the next paragraph, Feather River Community College District complied, in all material respects with the aforementioned requirements for the year ended June 30, 2002.

The Governing Board has not adopted, by resolution, a policy related to open courses as specified in Title 5 of the California Code of Regulations (CCR), Section 51006.

The above finding is further detailed in the Findings and Recommendations section of this report, along with recommendations to remedy the cause of the finding.

This report is intended solely for the information and use of the District's management, the Board of Trustees, and the federal and state awarding agencies and pass-through entities and should not be used by anyone other than these specified parties.

Perry-Smitz LLP

Sacramento, California
November 1, 2002

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (SUBJECT TO A-133)**

Board of Trustees
Feather River Community College District
Quincy, California

We have audited the general purpose financial statements of Feather River Community College District as of and for the year ended June 30, 2002, and have issued our report thereon dated November 1, 2002. In our report, our opinion was qualified because of the omission of the General Fixed Assets Group of accounts. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

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

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS (SUBJECT TO A-133)**

(Continued)

This report is intended for the information of the Board of Trustees, management, the State Department of Finance, the Chancellor's Office, California Community Colleges and Federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Perry-Smith LLP

Sacramento, California
November 1, 2002

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

Board of Trustees
Feather River Community College District
Quincy, California

Compliance

We have audited the compliance of Feather River Community College District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2002. Feather River Community College District's major Federal programs are identified in the accompanying schedule of Federal financial assistance. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Feather River Community College District's management. Our responsibility is to express an opinion on Feather River Community College District's compliance based on our audit.

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

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

Internal Control Over Compliance

The management of Feather River Community College District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Feather River Community College District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

(Continued)

Internal Control Over Compliance (Continued)

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

This report is intended for the information of the Board of Trustees, management, the State Department of Finance, the Chancellor's Office, California Community Colleges and Federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Perry-Smith LLP

Sacramento, California
November 1, 2002

FINDINGS AND RECOMMENDATIONS

**FEATHER RIVER COMMUNITY COLLEGE DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**

June 30, 2002

FINANCIAL STATEMENTS

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified not considered
to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements
noted? _____ Yes X No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Reportable condition(s) identified not considered
to be material weakness(es)? _____ Yes X None reported

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

Any audit findings disclosed that are required to be
reported in accordance with section 510(a) of
Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.063, 84.003, 84.007* 10.665	Student Financial Aid Forest Reserve Fund

* Clustered

Dollar threshold used to distinguish between Type A
and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ Yes X No

FEATHER RIVER COMMUNITY COLLEGE DISTRICT
SUMMARY OF FINDINGS AND RECOMMENDATIONS

June 30, 2002

1. STATE COMPLIANCE - ATTENDANCE (10000)

Finding

The Governing Board has not adopted, by resolution, a policy related to open courses as specified in Title 5 of the California Code of Regulations (CCR), Section 51006.

Recommendation

The Board of Trustees of the District should adopt, by resolution, a policy related to open courses as specified in CCR Section 51006.

Recommendation

The District has drafted a policy, for Board approval, related to open courses as specified in CCR Section 51006.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

FEATHER RIVER COMMUNITY COLLEGE DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

June 30, 2002

1. STATE COMPLIANCE - OTHER THAN ATTENDANCE (40000)

Finding

Second period actual FTES for 1998-1999 and 1999-2000 were reported incorrectly on the GANN limit worksheet. This resulted in an understatement of the 2000-2001 appropriations limit by approximately \$382,000.

Recommendation

Government Code Section 7908(c) requires each college to report to the Chancellor of the California Community Colleges and the Director of the Department of Finance at least annually its appropriations limit (GANN). To ensure actual FTES are reported correctly, we recommend that the District revise their GANN limit worksheet and verify the FTES reported with the Second Period Apportionment Attendance Report.

Current Status

The District revised their GANN limit worksheet and resubmitted the form to the State.

APPENDIX C

SUMMARY OF PRINCIPAL FINANCING DOCUMENTS

The following summaries of certain of the Bond Documents do not purport to be comprehensive or definitive statements of the provisions of such Bond Documents and prospective purchasers of the Bonds are referred to the complete texts of such documents, copies of which are available upon request from the Underwriter prior to the issuance and delivery of the Bonds and from the Trustee after the issuance and delivery of the Bonds.

THE INDENTURE

DEFINITIONS

The term “**Acceleration Default**” shall mean an Event of Default described in the Loan Agreement.

The term “**Act**” shall mean the Joint Powers Act, comprising Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title I of the Government Code of the State of California, as now in effect and as it may from time to time be amended or supplemented.

The term “**Act of Bankruptcy**” shall mean the filing of a petition in bankruptcy (or other commencement of a bankruptcy or similar proceeding) by or against the Borrower and/or any guarantor of the Borrower or the Authority (which guarantor is guarantying an obligation of the Borrower or the Authority relating to the Project), under any applicable bankruptcy, insolvency or similar law in effect; provided that any filing of a petition against the Borrower or any guarantor of the Borrower (or other involuntary commencement of a bankruptcy or similar proceeding), or the Authority, shall not constitute an Act of Bankruptcy if a court of competent jurisdiction, stays or dismisses such petition (or such proceeding) within 60 days of the filing thereof.

The term “**Additional Bonds**” shall mean any bonds issued under an indenture supplemental to the Indenture.

The term “**Agents**” shall mean any paying agent under the Indenture.

The term “**Authority**” shall mean the California Community College Financing Authority, the issuer of the Bonds under the Indenture, and its successors and assigns.

The term “**Authorized Amount**” shall mean, with respect to the Series A Bonds three million two hundred fifty thousand dollars (\$3,250,000), and with respect to the Series B Bonds one hundred sixty-five thousand dollars (\$165,000).

The term “**Authorized Authority Representative**” shall mean any member of the governing board of the Authority or any other person designated to act in such capacity by a Certificate of the Authority containing the specimen signature of any of such persons which certificate may designate an alternate or alternates.

The term “**Authorized Borrower Representative**” shall mean any member of the governing board of the Borrower, its President, Vice President, Secretary and Treasurer/Chief Financial Officer or any other person who at the time and from time to time may be designated as such, by written certificate furnished to the Authority and the Trustee containing the specimen signature of such person and signed on behalf of the Borrower by any of the foregoing enumerated persons, which certificate may designate an alternate or alternates.

The term “**Authorized Denominations**” shall mean \$5,000 and any integral multiple thereof.

The term “**Available Amounts**” means (i) proceeds of the sale of the Bonds, (ii) any other amounts for which in each case the Trustee has received, at the time such amounts are deposited with the Trustee, an opinion of Bond Counsel or nationally recognized counsel experienced in bankruptcy matters, to the effect that the use of such moneys to make payments on the Bonds would not be voidable as preferential payments or recoverable under the United States Bankruptcy Code should the Authority, the Borrower, or any guarantor of the Borrower become a debtor in proceedings commenced thereunder, and (iii) investment income derived from the investment of moneys described in the preceding clauses (i) or (ii).

The term “**Bond Counsel**” shall mean any attorney at law or firm of attorneys acceptable to the Authority, of nationally recognized standing in matters pertaining to the federal tax status of interest on bonds issued by states and political subdivisions, and duly admitted to practice law before the highest court of any state of the United States of America, but shall not include counsel for the Borrower.

The term “**Bond Fund**” shall mean the fund established pursuant to the Indenture.

The term “**Bonds**” shall mean the Series A Bonds and the Series B Bonds.

The term “**Borrower**” shall mean (i) Feather River College Foundation, Inc. a California nonprofit public benefit corporation, and its successors and assigns, and (ii) any surviving, resulting or transferee entity as provided in the Loan Agreement.

The term “**Borrower’s Certificate**” shall mean a certificate of the Borrower signed by an Authorized Borrower Representative.

The term “**Business Day**” shall mean any day other than a Saturday, a Sunday, a legal holiday, a day on which banking institutions in New York, New York or in the city or cities in which Trustee’s Principal Office is located, or day on which the New York Stock Exchange, is or are authorized or obligated by law or executive order to close.

The term “**Certificate of the Authority**” shall mean a certificate of the Authority signed by an Authorized Authority Representative.

The term “**Certified Resolution**” shall mean a copy of a resolution of the Authority certified by an Authorized Authority Representative, or by any deputy thereof, to have been duly adopted by the Authority and to be in full force and effect on the date of such certification.

The term “**Closing Date**” shall mean May 29, 2003, the date of initial issuance and delivery of the Bonds.

The term “**Code**” means the Internal Revenue Code of 1986 as in effect on the Closing Date or (except as otherwise referenced in the Indenture) as it may be amended to apply to obligations issued on the date of issuance of the Bonds, together with applicable temporary and final regulations promulgated, and applicable official public guidance published, under the Code.

The term “**Continuing Disclosure Agreement**” shall mean the Continuing Disclosure Agreement, executed by the Borrower and the Trustee in connection with the Bonds pursuant to the Loan Agreement, as it may be amended from time to time in accordance with the terms thereof.

The term “**Cost of Issuance Fund**” shall mean the fund by that name established pursuant to the Indenture.

The term “**Coverage Requirement**” shall mean, for any period of computation, the requirement that the ratio of (i) Net Project Revenues for such period (including interest earnings accruing during such period) to (ii) the Debt Service on Bonds Outstanding for such period, shall be 1.20 or greater.

The term **“Deed of Trust”** shall mean that certain Deed of Trust With Absolute Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of the date of the Indenture by the Borrower in favor of the Trustee securing the payment of the obligations of the Borrower under the Loan Agreement, and encumbering the Borrower’s fee simple interest in the real property comprising the Project and the Borrower’s ownership interest in the improvements comprising the Project. as such deed of trust may be originally executed or as from time to time supplemented and amended.

The term **“Debt Service”** means the scheduled amount of interest and amortization of principal payable on Outstanding Indebtedness, including the Bonds, during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

The term **“District”** means the Feather River Community College District, a California community college district.

The term **“Event of Default”** (i) as used in the Indenture other than with respect to defaults under the Loan Agreement shall have the meaning specified in the Indenture, and (ii) as used in the Loan Agreement shall have the meaning specified therein.

The term **“Expenses of Operating and Maintaining the Project”** shall mean the reasonable expenses, paid or accrued, of operation, maintenance and current repair of the Project, as calculated in accordance with generally accepted accounting principles, and shall include, without limiting the generality of the foregoing, salaries, wages, employee benefits, payroll taxes, legal fees, cost of materials and supplies, costs of utilities, licenses, insurance, taxes, advertising, routine repairs, renewals, replacements and alterations occurring in the usual course of business, fees and expenses of the Trustee or the Borrower incurred in connection with calculations made pursuant to the Indenture or as otherwise described in the Loan Agreement, rebate obligations owed pursuant to the Indenture, costs of billings and collections, and costs of audits. Expenses of Operating and Maintaining the Project shall not include (i) any payments on the Loan or other Indebtedness, (ii) allowance for depreciation, amortization or renewals or replacements of capital assets (except as provided above) of the Project, (iii) deposits to the Repair and Replacement Fund as required by the Loan Agreement, (iv) payments to the Authority or the Trustee under the Loan Agreement or (v) the Management Fee.

The term **“Fair Market Value”** means the price at which a willing buyer would purchase an investment from a willing seller in a bona fide, arm’s length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of the Code) and, otherwise, the term **“Fair Market Value”** means the acquisition price in a bona fide arm’s length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security – State or Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) any commingled investment fund in which the Authority and related parties do not own more than a ten percent (10%) beneficial interest therein if the return paid by the fund is without regard to the source of the investment. The Trustee shall have no duty in connection with the determination of Fair Market Value other than as required in the investment directions of the Borrower.

The term **“Financial Consultant”** means an independent firm of financial or management consultants of regional or national reputation with expertise in the area of non-profit entities and qualified to report on questions relating to the financial condition of nonprofit entities engaged in activities similar to those of the Borrower.

The term **"Fiscal Year"** shall mean any twelve month period from July 1 in one calendar year through June 30 of the succeeding calendar year.

The term **"Gross Proceeds"** means the amounts described in the Regulations.

The term **"Gross Project Revenues"** shall mean all receipts, revenues, income and other moneys received by or on behalf of the Borrower and derived from the ownership or operation of the Project, including, all amounts paid by the District pursuant to the Occupancy Agreement, interest earnings on the Reserve Fund, the Surplus Fund, the Gross Project Revenue Fund and the Repair and Replacement Fund, and all rights to receive the same, whether in the form of accounts, accounts receivable, contract rights or other rights, and the proceeds of such rights, whether now owned or held or coming into existence and the proceeds of rental interruption insurance, but not including insurance and condemnation proceeds (other than rental interruption insurance proceeds) or any portion thereof or proceeds received upon the foreclosure sale of the Project. Notwithstanding the foregoing, Gross Project Revenues shall not include (a) any tenant security deposits deposited to an impound account or accounts until such time as such deposits may be lawfully applied by the Borrower to any costs related to operation and maintenance of the Project and (b) any moneys paid by the District to, or for the account of the Borrower, and dedicated specifically to the purpose of the repair and improvement of the Project.

The term **"Gross Project Revenue Fund"** shall mean the fund established pursuant to the Loan Agreement.

The term **"Hazardous Substances"** means any substances, pollutants, wastes and contaminants used in such (or any similar) term under any federal, state or local statute, ordinance, code or regulation enacted or amended.

The term **"Holder," "holder" or "Bondholder" or "owner" or "Bondowner"** shall mean the person in whose name any Bond is registered.

The term **"Indebtedness"** shall mean (a) all liabilities for borrowed money which have been incurred or assumed in connection with the acquisition or construction of the Project, or secured by the Project or the Gross Project Revenues, whether or not such indebtedness is assumed by the Borrower; (b) the present value of all payments due under any lease or under any other arrangement for retention of title (discounted in accordance with generally accepted accounting principles) if such lease or other arrangement is in substance (i) a financing lease (including any lease under which the Borrower has or will have an option to purchase the property subject thereto at a nominal amount or an amount less than a reasonable estimate of the fair market value of such property at the date of such purchase or the term of which approximates or exceeds the estimated useful life of the property subject thereto), (ii) an arrangement for the retention of title for security purposes, or (iii) an installment purchase; and (c) to the extent not contemplated in the foregoing clauses, all forms of Short-Term and Long-Term Indebtedness. Notwithstanding the foregoing, Indebtedness shall not include (a) any requirement to pay principal of, premium, if any, or interest on any obligation to the extent that Irrevocable Deposits sufficient to pay such principal of, premium, if any, or interest have been made, or (b) accounts payable or other obligations of the Borrower incurred in the ordinary course of business, which obligations are not required to be capitalized in accordance with generally accepted accounting principles.

The term **"Information Services"** means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Mergent/FIS, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attention: Called Bond Department; and Standard and Poor's J.J. Kenny Information Services' "Called Bond Record," 55 Water Street, 45th Floor, New York, New York 10041; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other services providing information with respect to the redemption of Bonds as the Authority may designate in a Written Request of the Authority filed with the Trustee.

The term **"Indenture"** shall mean the Indenture of Trust, as originally executed or as it may from time to time be supplemented, modified or amended by any supplemental indenture entered into pursuant to the provisions of the Indenture.

The term **"Interest Payment Date"** shall mean January 1 and July 1 of each year, commencing January 1, 2004.

The term **"Investment Securities"** shall mean any of the following (including any funds comprised of the following, which may be funds maintained or managed by the Trustee and its affiliates):

(a) For all purposes, including defeasance investments in refunding escrow accounts:

1. Cash deposits (insured at all times by the Federal Deposit Insurance Corporation or otherwise collateralized with obligations described in the next paragraph).

2. Direct obligations of (including obligations issued or held in book entry form on the books of the Department of Treasury) the United States of America. In the event these securities are used for defeasance, they shall be non-callable and non-prepayable.

(b) For all purposes other than defeasance investments in refunding escrow accounts:

1. Obligations of the following federal agencies so long as such obligations are backed by the full faith and credit of the United States of America:

- a. U.S. Export-Import Bank (Eximbank)
- b. Rural Economic Community Development Administration
- c. Federal Financing Bank
- d. U.S. Maritime Administration
- e. U.S. Department of Housing and Urban Development (PHAs)
- f. General Services Administration
- g. Small Business Administration
- h. Government National Mortgage Association (GNMA)
- i. Federal Housing Administration
- j. Farm Credit System Financial Assistance Corporation

2. 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:

a. Senior debt obligations rated in the highest long-term rating category by at least two nationally recognized rating agencies issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC).

b. Senior debt obligations of the Federal Home Loan Bank System.

3. U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which either (a) have a rating on their short-term certificates of deposit on the date of purchase in the highest short-term rating category of at least two nationally recognized rating agencies, (b) are insured at all times by the Federal Deposit Insurance Corporation, or (c) are collateralized with direct obligations of the United States of America at one hundred two percent (102%) valued daily. All such certificates must mature no more than three hundred sixty (360) days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank).

4. Commercial paper which is rated at the time of purchase in the highest short-term rating category of at least two (2) nationally recognized rating agencies and which matures not more than two hundred seventy (270) days after the date of purchase.

5. Investments in (a) money market funds subject to SEC Rule 2a-7 and rated in the highest short-term rating category of at least two nationally recognized rating agencies and (b) public sector investment pools operated pursuant to SEC Rule 2a-7 in which the Issuer's deposit shall not exceed 5% of the aggregate pool balance at any time and such pool is rated in one of the two highest short-term rating categories of at least two nationally recognized rating agencies.

6. Pre-refunded municipal obligations defined as follows: Any bonds or other obligations of any state of the United States of America or 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,

a. which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest long-term rating category of at least two (2) nationally recognized rating agencies; or

b. (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or direct obligations of the United States of America, 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

(ii) 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.

7. General obligations of states with a short-term rating in one of the two (2) highest rating categories and a long-term rating in one (1) of the two (2) highest rating categories of at least two (2) nationally recognized rating agencies. In the event such obligations are variable rate obligations, the interest rate on such obligations must be reset not less frequently than annually.

8. Investment agreements from providers rated "AA" or higher.

The value of the above investments, other than cash, 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:

1. As to investments the bid and asked prices of which are published on a regular basis in The Wall Street Journal (or, if not there, then in The New York Times): the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination;

2. As to investments the bid and asked prices of which are not published on a regular basis in The Wall Street Journal or The New York Times: the average bid price at such price at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Trustee in its absolute discretion) at the time making a market in such investments or the bid price published by a nationally recognized pricing service;

3. As to certificates of deposit and bankers acceptances, the face amount thereof, plus accrued interest; and

4. As to any investment not specified above, the value thereof established by prior agreement between the Authority and the Trustee.

The term **"Irrevocable Deposit"** shall mean the irrevocable deposit in escrow of cash or Investment Securities defined in subsections (a) and (b) (1) of the definition thereof, in an amount and under terms sufficient to pay all or a specified portion of the principal of, premium, if any, and the interest on, as the same will become due, any Indebtedness which would otherwise be considered outstanding. The escrow agent shall have possession of any securities (other than book entry securities) and may be the Trustee or any other independent entity with trust powers authorized to act in such capacity.

The term **"Issuance Costs"** means all costs and expenses of issuance of the Bonds, including, but not limited to: (i) underwriter's discount and fees; (ii) counsel fees and expenses, including without limitation those of Bond Counsel, underwriter's counsel, Borrower's counsel and Authority counsel, as well as any other specialized counsel fees and expenses incurred in connection with the issuance of the Bonds or the making of the Loan; (iii) the Authority's fees and expenses incurred in connection with the issuance of the Bonds; (iv) rating agency fees; (v) Trustee's fees and expenses and Trustee's counsel fees; (vi) paying agent's and certifying and authenticating agent's fees and expenses related to issuance of the Bonds; (vii) accountant's fees related to issuance of the Bonds; (viii) printing costs of the Bonds and of the preliminary and final official statements; (ix) publication costs associated with the financing proceedings; (x) costs of engineering and feasibility studies necessary to the issuance of the Bonds; and (xi) bond insurance premiums.

The term **"Leases"** mean those certain lease or rental agreements by and between the Borrower and the tenants of the Project.

The term **"Loan"** shall mean the loan made by the Authority to the Borrower pursuant to the Loan Agreement for the purpose of financing the acquisition by the Borrower of the Project.

The term **"Loan Agreement"** shall mean that certain Loan Agreement with respect to the Loan, dated as of May 1, 2003, among the Authority, the Borrower and the Trustee as originally executed or as it may from time to time be supplemented or amended.

The term **"Long Term Indebtedness"** means indebtedness with a stated term greater than one year or with a term that may be extended beyond one year at the option of the Borrower.

The term **"Member"** or **"Member of the Authority"** means those certain California community college districts that are party to that certain California Community College Financing Authority Joint Exercise of Powers Agreement, originally executed as of June 28, 1995, and amended as of May 14, 1997 and May 5, 2003.

The term **"Net Proceeds,"** when used with respect to any insurance proceeds or condemnation award, shall mean the amount remaining after deducting from the gross proceeds thereof all expenses (including reasonable attorneys' fees) incurred in the collection of such proceeds or award.

The term **"Net Project Revenues"** shall mean, for any period of computation, Gross Project Revenues during such period less Expenses of Operating and Maintaining the Project during such period.

The term **"Occupancy Agreement"** means that certain agreement, dated as of May 1, 2003, entitled "Agreement Between Feather River College Foundation and Feather River Community College District Regarding the Operation of the Student Housing Complex (Feather River Apartments)" all rights and remedies under which have been assigned to the Trustee by the Borrower under the Loan Agreement to further secure Borrower's obligations thereunder.

The term **"Official Statement"** shall mean that certain Official Statement distributed with respect to the Bonds, dated as of May 21, 2003.

The term **"Operating Budget"** shall mean the budget to be prepared by the Borrower pursuant to the Loan Agreement.

The term **"Operation and Maintenance Fund"** shall mean the fund by that name established pursuant to the Loan Agreement.

The term **"Opinion of Counsel"** shall mean a written opinion of counsel, who may be counsel for the Authority or Bond Counsel or counsel for the Trustee.

The term **"Original Purchaser"** means the purchaser or purchasers of the Bonds from the Authority on the Closing Date.

The term **"Outstanding"** or **"outstanding,"** when used as of any particular time with reference to Bonds, shall mean all Bonds theretofore authenticated and delivered by the Trustee under the Indenture except:

(a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation;

(b) Bonds for the payment or redemption of which moneys or securities in the necessary amount (as provided in the Indenture) shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or the redemption date of such Bonds), provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as provided in the Indenture or provision satisfactory to the Trustee shall have been made for the giving of such notice; and

(c) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the terms of the Indenture.

The term **"Permitted Encumbrances"** means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent; (ii) the Loan Agreement, as it may be amended from time to time; (iii) any right or claim of any mechanic, laborer, materialman, supplier or vendor not filed or perfected in the manner prescribed by law; (vi) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date and which Borrower certifies in writing will not materially impair the use of the Project by the Borrower for its intended purposes; and (v) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Deed of Trust, which the Borrower certifies in writing will not materially impair the use of the Project by the Borrower for its intended purposes.

The term **"person"** shall mean an individual, a corporation, a partnership, a limited liability company, a trust, an unincorporated organization or a government or any agency or political subdivision thereof.

The term **"Principal Office,"** with respect to the Trustee, shall mean the principal corporate trust office of the Trustee located at the address set forth in the Indenture or at such other place as the Trustee shall designate by notice given under the Indenture.

The term **"Principal Payment Date"** shall mean any date on which principal of the Loan is due and payable under the Loan Agreement.

The term **"Project"** shall mean the costs of acquiring, improving, remodeling, renovating and equipping that certain apartment complex located at 300 Golden Eagle Avenue, Quincy, California 95971.

The term **“Project Costs”** means, to the extent authorized by the Code and the Regulations, any and all costs and expenses incurred by the Borrower or the Authority with respect to the acquisition, financing, refinancing, and/or operation of the Project, including, without limitation, Issuance Costs, costs for the acquisition and/or refinancing of property, the cost of consultant, accounting and legal services, appraisal costs, administrative expenses, transfers into the Bond Fund established under the Indenture, and all other costs approved by Bond Counsel.

The term **“Project Fund”** shall mean the fund established pursuant to the Indenture.

The term **“Purchase Price,”** for the purpose of computation of the Yield of the Series A Bonds, has the same meaning as the term “issue price” in the Code, and, in general, means the initial offering price to the public (not including bond houses and brokers, or similar persons or organizations acting in the capacity of underwriters or wholesalers) at which price a substantial amount of the Tax-Exempt Bonds are sold or, if any Tax-Exempt Bonds are privately placed, the price paid by the Original Purchaser of such Tax-Exempt Bonds or the acquisition cost of the Original Purchaser.

The term **“Rebate Account”** shall mean the account by that name established pursuant to the Indenture.

The term **“Rebate Analyst”** shall mean any accountant, law firm or consultant experienced in the calculation of arbitrage rebate selected by the Borrower and approved by the Authority.

The term **“Record Date”** shall mean the close of business on the fifteenth (15th) day of the month (whether or not a Business Day) before such Interest Payment Date.

The term **“Regents”** shall mean The Regents of the University of California.

The term **“Regulations”** means the Income Tax Regulations promulgated by the Department of the Treasury pursuant to the Code from time to time or pursuant to any predecessor statute to the Code.

The term **“Repair and Replacement Fund”** shall mean the fund by that name established pursuant to the Indenture.

The term **“Repair and Replacement Fund Requirement”** shall have the meaning assigned to such term in the Loan Agreement.

The term **“Reserve Fund”** shall mean the fund established pursuant to the Indenture.

The term **“Reserve Fund Requirement”** shall mean, as of any calculation date, the least of (1) the maximum annual Debt Service with respect to the Bonds (in any Fiscal Year) or (2) 125% of the average annual Debt Service with respect to the Bonds (on a Fiscal Year basis).

The term **“Responsible Officer”** of the Trustee shall mean any officer of the Trustee assigned to administer its duties under the Indenture.

The term **“Revenues”** shall mean all amounts pledged under the Indenture to the payment of principal of, premium, if any, and interest on the Bonds, consisting of the following: (i) any portion of the net proceeds of the Bonds deposited with the Trustee under the Indenture, (ii) any income earned on investments pursuant to the Indenture, (iii) proceeds derived from the exercise of any remedies provided for under the Deed of Trust, (iv) proceeds derived from the exercise of any remedies under the Occupancy Agreement, and (v) at all times while any Bonds are Outstanding, (A) any repayments of the Loan (as defined in the Loan Agreement) required or permitted to be made by the Borrower pursuant to the Loan Agreement, (B) amounts drawn by the Trustee from the Reserve Fund or the Repair and Replacement Fund for transfer to the Bond Fund for payment of the Bonds, (C) all Net Proceeds including insurance proceeds and condemnation awards as set forth in the

Loan Agreement and (D) any Gross Project Revenues received by the Trustee pursuant to the Loan Agreement; but such term shall not include payments to the United States, the Authority or the Trustee pursuant to the Loan Agreement or the Indenture.

The term “**Securities Depositories**” shall mean The Depository Trust Company, 55 Water Street, New York, New York 10041, Fax (212) 855-7320 and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other securities depositories as the Authority may designate in a Written Request of the Authority delivered to the Trustee.

The term “**Series A Bonds**” shall mean the California Community College Financing Authority, Student Housing Revenue Bonds (Feather River Community College District Project) Series 2002A Tax-Exempt, issued and outstanding under the Indenture.

The term “**Series B Bonds**” shall mean the California Community College Financing Authority Student Housing Revenue Bonds (Feather River Community College District Project) Series 2002B Taxable, issued and outstanding under the Indenture.

The term “**Short-Term Indebtedness**” means all indebtedness of the Borrower having an original maturity less than or equal to one year and not renewable at the option of the Borrower for a term greater than one year from the date of original incurrence or issuance.

The term “**supplemental indenture**” or “**indenture supplemental to the Indenture**” shall mean any indenture duly authorized and entered into between the Authority and the Trustee in accordance with the provisions of the Indenture.

The term “**Surplus Fund**” shall mean the fund by that name established pursuant to the Indenture.

The term “**Tax Certificate**” means the Tax Certificate executed by the Borrower and the Authority relating to the Tax-Exempt Bonds, dated the date of issuance of the Bonds, as the same may be amended or supplemented in accordance with its terms, including the exhibits thereto.

The term “**Tax-Exempt**” means, with respect to interest on any obligations of a state or local government, including the Tax-Exempt Bonds, that such interest is excluded from gross income for federal income tax purposes whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating tax liabilities, including any alternative minimum tax or environmental tax, under the Code.

The term “**Tax-Exempt Bonds**” shall mean the Series A Bonds.

The term “**Trustee**” shall mean U.S. Bank National Association, a national banking association organized under the laws of the United States of America, or its successor as Trustee under the Indenture.

The terms “**Written Consent,**” “**Written Demand,**” “**Written Direction,**” “**Written Election,**” “**Written Notice,**” “**Written Order,**” “**Written Request**” and “**Written Requisition**” of the Authority or the Borrower shall mean, respectively, a written consent, demand, direction, election, notice, order, request or requisition signed on behalf of the Authority by an Authorized Authority Representative or on behalf of the Borrower by an Authorized Borrower Representative.

The term “**Yield**” means that yield which, when used in computing the present worth of all payments of principal and interest (or other payments in the case of Nonpurpose Obligations which require payments in a form not characterized as principal and interest) on a Nonpurpose Obligation, all computed as prescribed in applicable Regulations and, in the case of variable rate obligations, as further prescribed in the Indenture.

THE BONDS

Payment. Both the principal and redemption price, including any premium, of the Bonds shall be payable by check in lawful money of the United States of America only upon presentation and surrender thereof at the Principal Office of the Trustee. Payment of the interest on any Bond shall be made in like lawful money to the person appearing on the bond registration books of the Trustee as the registered owner thereof on the applicable Record Date, such interest to be paid by check mailed on the Interest Payment Date by first class mail, postage prepaid to the registered owner at its address as it appears on such registration books, except that the Trustee will, at the request of any registered owner of \$1,000,000 or more in aggregate principal amount of Bonds, make payments of principal, premium and interest on such Bonds by wire transfer to the account within the United States designated by such owner to the Trustee in writing at least 15 days before the Record Date for such payments, any such designation to remain in effect until withdrawn in writing.

Transfer and Exchange of Bonds. Any Bond may, in accordance with the terms of the Indenture, be transferred upon the books of the Trustee, required to be kept pursuant to the provisions of the Indenture, by the person in whose name it is registered, in person or by its duly authorized attorney, upon surrender of such Bond for cancellation at the Principal Office of the Trustee, accompanied by a written instrument of transfer in a form acceptable to the Trustee, duly executed. Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds of the same Series of other Authorized Denominations. Whenever any Bond shall be surrendered for transfer or exchange, the Authority shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same Series, for a like aggregate principal amount.

The Trustee shall require the payment by the Bondholder requesting any such transfer or exchange of any tax, fee or other governmental charge required to be paid with respect to such transfer or exchange, and may, in connection with any exchange, collect a charge equal to a customary fee charged by the Trustee for such exchange, but any such transfer or exchange shall otherwise be made without charge to the Bondholder requesting the same. The cost of printing any Bonds and any services rendered or any expenses incurred by the Trustee in connection therewith shall be paid by the Borrower.

No transfer or exchange shall be required to be made of any Bonds (i) called for redemption, (ii) during the ten (10) days next preceding the giving of any notice of redemption, or (iii) during the period of time between any Record Date and the next related Interest Payment Date.

Bond Register. The Authority has appointed the Trustee as registrar and authenticating agent for the Bonds. The Trustee will keep or cause to be kept at their respective Principal Office sufficient books for the transfer of the Bonds, which shall at all reasonable times upon reasonable notice be open to inspection by the Authority and the Borrower; and, upon presentation for such purpose, the Trustee as registrar shall, under such reasonable regulations as it may prescribe, transfer or cause to be transferred, on said books, Bonds.

Temporary Bonds. The Bonds may be issued initially in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed or typewritten, shall be of such Authorized Denominations as may be determined by the Authority and may contain such reference to any of the provisions of the Indenture as may be appropriate. Every temporary Bond shall be executed by the Authority and be authenticated and registered by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Authority issues temporary Bonds, it will execute and furnish without unreasonable delay definitive Bonds, which may be printed, lithographed or typewritten, and thereupon the temporary Bonds may be surrendered, for cancellation, in exchange therefor at the Principal Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds an equal aggregate principal amount of definitive Bonds of Authorized Denominations. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under the Indenture as definitive Bonds authenticated and delivered under the Indenture.

Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Authority, at the expense of the holder of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and principal amount in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of the Bonds so mutilated. Every mutilated Bond so surrendered to the Trustee shall be canceled by it and delivered to, or upon the written order of the Authority. If any Bond issued under the Indenture shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee, and if such evidence is satisfactory to the Trustee and indemnity for the Authority and the Trustee satisfactory to the Trustee shall be given, the Authority, at the expense of the holder, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like tenor and number in lieu of and in substitution for the Bond so lost, destroyed or stolen (or if any such Bond shall have matured or shall have been called for redemption, instead of issuing a substitute Bond, the Trustee on behalf of the Authority may pay the same without surrender thereof upon receipt of indemnity for the Authority and the Trustee satisfactory to the Trustee). The Authority may require payment of a reasonable fee for each new Bond delivered under the Indenture and payment of the expenses which may be incurred by the Authority and the Trustee. Any Bond delivered under the provisions of the Indenture in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Authority whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of the Indenture with all other Bonds secured by the Indenture.

ISSUANCE OF BONDS; APPLICATION OF PROCEEDS

Project Fund. There is created and established with the Trustee pursuant to the Indenture a separate trust fund which shall be designated the "Project Fund." Upon the initial delivery of the Bonds, there shall be deposited in the Project Fund the amounts specified in the Indenture. Amounts deposited or held in such account shall be applied for the payment of Project Costs. The Trustee will transfer moneys from the Project Fund in accordance with a funding requisition certified by the Borrower which contains the amount to be paid, the entity to which the money shall be paid and the Borrower's representation that the full amount of such disbursement is for the payment or reimbursement of Project Costs. Neither the Trustee nor the Authority shall be responsible for the application by the Borrower of moneys disbursed to the Borrower in accordance with the Indenture.

Cost of Issuance Fund. There is created and established with the Trustee pursuant to the Indenture a separate trust fund which shall be designated the "Cost of Issuance Fund," which shall be applied only as provided in the Indenture. Upon the initial delivery of the Bonds, there shall be deposited in the Cost of Issuance Fund the amounts specified in the Indenture. The amount in the Cost of Issuance Fund shall be used to pay Issuance Costs.

Before each payment is made from the Cost of Issuance Fund by the Trustee, there shall be filed with the Trustee a Written Requisition of the Borrower, accompanied by copies of appropriate invoices or other evidence of amounts due, and stating with respect to each payment to be made: (i) the requisition number; (ii) the name and address of the person to whom payment is due (which may be the Borrower if the payment is to reimburse the Borrower for amounts previously paid); (iii) the purpose for which the payment is to be made; (iv) the amount to be paid; (v) that each obligation mentioned therein has been properly incurred and is a proper charge against the Cost of Issuance Fund; and (vi) that none of the items for which payment is requested has been previously paid or reimbursed from the Cost of Issuance Fund. The Trustee is authorized to act thereon without further inquiry.

Any amounts remaining in the Cost of Issuance Fund on the date six (6) months after the Closing Date and not expected by the Borrower and the Authority (as set forth in a Certificate of the Borrower) to be required to pay other costs payable from such fund shall be transferred by the Trustee to the Borrower and the Trustee shall close the Cost of Issuance Fund.

No amount in any other fund or account created by the Indenture shall be expended for Issuance Costs.

REDEMPTION OF BONDS

Selection of Bonds for Redemption. In instances other than a mandatory sinking fund redemption effected pursuant to the Indenture, Bonds to be redeemed under the Indenture shall be, in the case of an optional redemption effected pursuant to the Indenture, selected by the Borrower and if not so selected or in the instance of any redemption undertaken hereunder by reason other than an optional redemption effected pursuant to the Indenture, Bonds will be redeemed in inverse order of maturity. If less than all the Bonds of a maturity are to be redeemed the Trustee shall select the Bonds within such maturity to be redeemed by lot, in whole multiples of Authorized Denominations. In no event shall Bonds be redeemed in amounts other than whole multiples of minimum Authorized Denominations. For purposes of a redemption pursuant to the Indenture, the Trustee may round down to the nearest Authorized Denomination. For purposes of redeeming Bonds in denominations greater than minimum Authorized Denominations, the Trustee shall assign to such Bonds a distinctive number for each such principal amount and, in selecting Bonds for redemption by lot, shall treat such amounts as separate Bonds. The Trustee shall promptly notify the Authority and the Borrower in writing of the numbers of the Bonds selected for redemption.

Notice of Redemption. Notice of redemption shall be given by the Trustee for, to, and on behalf of the Authority, by first class mail, not less than thirty (30) days prior to the redemption date, or, in the case of an extraordinary redemption pursuant to the Indenture, not less than five (5) days before the redemption date, to (i) the Securities Depositories and Information Services and (ii) the registered owner of each Bond called for redemption, at its address as it appears on the registration books, but neither failure to mail such notice nor any defect in any notice so mailed shall affect the sufficiency of the proceedings for the redemption of any of the Bonds with respect to which such failure or defect shall have occurred. Each notice of redemption shall state the redemption date, the place of redemption, the principal amount and, if less than all, the distinctive numbers of the Bonds to be redeemed, and shall also state that the interest on the Bonds in such notice designated for redemption (other than the unredeemed portions, if any, thereof) shall cease to accrue from and after such redemption date and that on said date there will become due and payable on each of said Bonds the principal amount thereof to be redeemed, interest accrued thereon to the redemption date and the premium, if any, thereon (such premium to be specified). Neither the Authority nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers.

Partial Redemption of Bonds. Any Bond may be redeemed in whole or in part, but no part of any Bond shall be redeemed in an amount less than an Authorized Denomination, and Bonds remaining after any redemption shall, to the extent practicable, be in Authorized Denominations. Upon surrender of any Bond redeemed in part only, the Authority shall execute and the Trustee shall authenticate and deliver to the registered owner thereof, without charge to the owner thereof, a new Bond of like Series and maturity and of Authorized Denominations designated by such owner equal in aggregate principal amount to the unredeemed portion of the Bond surrendered.

Effect of Redemption Notice of redemption having been duly given as aforesaid, and moneys for payment of the redemption price being held by the Trustee, the Bonds so called for redemption shall, on the redemption date designated in such notice, become due and payable at the redemption price specified in such notice, interest on the Bonds so called for redemption shall cease to accrue, said Bonds shall cease to be entitled to any lien, benefit or security under the Indenture, and the holders of said Bonds shall have no rights in respect thereof except to receive payment of the redemption price thereof.

REVENUES

Bond Fund. There is created and established with the Trustee pursuant to the Indenture a separate trust fund which shall be designated the "Bond Fund." The Bond Fund shall be applied only as provided in the Indenture.

The Trustee shall deposit in the Bond Fund, from time to time, upon receipt thereof, all Revenues, including insurance proceeds and condemnation awards used to prepay the Loan and other Loan payments or prepayments received from or for the account of the Borrower and all amounts received under the Occupancy Agreement. The Trustee shall establish a separate subaccount in the Bond Fund for each of the following categories of payment into the Bond Fund: (i) payments of Revenues into the Bond Fund except for the payments described in clauses (ii) and (iii) of this sentence (which account shall be called the "Revenues Account"), (ii) prepayment of the Loan pursuant to the Indenture and the Loan Agreement (which account shall be called the "Redemption Account"), and (iii) Available Amounts received by the Trustee (which account shall be called the "Available Amounts Account").

Except as otherwise provided in the Indenture, moneys in the Bond Fund shall be used solely for the payment of the principal of and premium, if any, and interest on the Bonds as the same shall become due, whether at maturity or upon redemption or acceleration or otherwise. In making payments of principal of, premium, if any, and interest on the Bonds, the Trustee shall, in the following order of priority (a) use all other Available Amounts held in the Bond Fund, and (b) then use any other Revenues received by the Trustee.

On each date on which principal of or interest or premium on the Bonds is due and payable, in the event that there are insufficient funds on any date in the Bond Fund to pay principal of or interest or any premium on the Bonds then due and payable, the Trustee shall draw on (i) the Surplus Fund to the extent of any funds on deposit therein (in accordance with the Indenture), (ii) the Repair and Replacement Fund to the extent of any funds on deposit therein (in accordance with the Indenture), and (iii) the Reserve Fund to the extent of any funds on deposit therein (in accordance with the Indenture), in each case only in an amount necessary to cure the deficiency.

Repair and Replacement Fund. The Trustee shall initially deposit in the Repair and Replacement Fund the amount transferred to the Trustee for deposit therein as provided by the Occupancy Agreement. Amounts shall be deposited into the Repair and Replacement Fund as provided in the Loan Agreement. Moneys in the Repair and Replacement Fund shall be expended and used only for capital costs, including structural repairs to and reroofing of the Project, repair and replacement of major mechanical components of the project, the repair or replacement of equipment, furniture and fixtures used in the Project and any other capital costs and extraordinary maintenance expenses of the Project, for the purpose of maintaining the Project, upon receipt by the Trustee of a Written Requisition of the Borrower stating the specific purpose for which such moneys are to be expended and that such expenditure is in accordance with the Indenture.

Whenever and to the extent that moneys in the Bond Fund and the Surplus Fund are insufficient for the purpose of paying principal of, redemption price or interest on the Bonds for payment of such amounts as the case may be, whether at the stated payment date, by redemption of Bonds or upon acceleration, money on deposit in the Repair and Replacement Fund shall be transferred by the Trustee for such purposes to the Bond Fund on such date without further authorization or direction.

Reserve Fund. The Trustee shall deposit in the Reserve Fund the amount set forth in the Indenture. Pursuant to the Loan Agreement, the Borrower is thereafter obligated to transfer to the Trustee for deposit by the Trustee in the Reserve Fund an amount, if necessary, to restore the Reserve Fund to the Reserve Fund Requirement. The Trustee shall also deposit into the Reserve Fund any other amounts deposited with the Trustee by the Borrower with written instructions that they be deposited in the Reserve Fund, and amounts required to be deposited therein under the Indenture.

On each Interest Payment Date, if any amounts remain on deposit in the Bond Fund following payment on the Bonds on such date, the amounts shall be transferred by the Trustee from the Bond Fund to the Reserve Fund to the extent necessary to bring the amount on deposit in the Reserve Fund up to the Reserve Fund Requirement. No such transfer shall exceed the amounts then in the Bond Fund and not otherwise needed to pay Debt Service on the Bonds on such date.

Notwithstanding any other provision of the Indenture, all investment earnings on amounts in the Reserve Fund shall be retained in the Reserve Fund, to be used for purposes of the Reserve Fund.

Moneys on deposit in the Reserve Fund shall be transferred pursuant to the Indenture by the Trustee to the Bond Fund on each date on which principal or interest on the Bonds is payable, without further authorization or direction, whenever and to the extent that moneys in the Bond Fund (after draws have been made on the funds on deposit in the Surplus Fund and the Repair and Replacement Fund and such amounts have been credited to the Bond Fund) on any Interest Payment Date or Principal Payment Date are insufficient for the purpose of paying principal of, redemption price or interest on the Bonds, as the case may be, on such Interest Payment Date or Principal Payment Date. The Trustee shall provide the Borrower and the Authority with notice of any such transfer pursuant to the Indenture.

If on the Business Day prior to each Interest Payment Date, the amount on deposit in the Reserve Fund shall exceed the Reserve Fund Requirement, such excess shall be transferred to the Bond Fund.

Investment of Moneys. Except as otherwise provided in the Indenture, any moneys in any of the funds and accounts to be established by the Trustee pursuant to the Indenture shall be invested by the Trustee in Investment Securities selected and directed in writing by the Borrower, with respect to which payments of principal thereof and interest thereon are scheduled or otherwise payable not later than one day prior to the date on which it is estimated that such moneys will be required by the Trustee. In the absence of such directions, the Trustee shall invest such moneys in Investment Securities described in clauses (a) or (b) of the definition thereof and any such investments shall mature on a date on which it is estimated that such moneys will be required by the Trustee. Available Amounts held in the Bond Fund shall be invested only in Investment Securities described in clause (a) of the definition thereof maturing or subject to payment upon demand of the holder thereof within 30 days after the acquisition of any such investment and in any event not later than the date on which it is estimated that such moneys will be required by the Trustee. Neither the Trustee nor the Authority shall have any liability or responsibility for any loss resulting from any investment made in accordance with the Indenture.

Except as otherwise provided in the next sentence, all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing Gross Proceeds of the Bonds shall be acquired, disposed of, and valued (as of the date that valuation is required by the Indenture or the Code) at Fair Market Value. The Borrower shall ensure that investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code and (unless valuation is undertaken at least annually) investments in the Reserve Fund shall be valued at their present value (within the meaning of the Code) for purposes of calculating arbitrage rebate amounts.

Except as otherwise provided in the Indenture, any interest, earnings or profit on such investment of moneys in any fund or account shall be credited to the Gross Project Revenue Fund and any loss on such investment of moneys shall be charged to the respective funds or accounts from which such investments are made, except as otherwise provided in the Indenture. The Trustee may sell or present for redemption any obligations so purchased whenever it shall be necessary in order to provide moneys to meet any payment, and the Trustee shall not be liable or responsible for any loss resulting from such sale or redemption.

The Trustee may make any and all investments permitted under the Indenture through its own bond department or any affiliate and may pay said bond department reasonable, customary fees for placing such investments. The Trustee and its affiliates may act as principal, agent, sponsor, advisor or depository with

respect to Investment Securities under the Indenture. The Trustee may commingle moneys on deposit in the funds and accounts established under the Indenture for purposes of investment. Any Investment Securities that are registrable securities shall be registered in the name of the Trustee.

Except as otherwise provided in the Indenture, the Authority covenants that all investments of amounts deposited in any fund or account created by or pursuant to the Indenture, or otherwise containing gross proceeds of the Bonds (within the meaning of the Code) shall be acquired, disposed of, and valued (as of the date that valuation is required by the Indenture or the Code) at Fair Market Value.

Investments in funds or accounts (or portions thereof) that are subject to a yield restriction under applicable provisions of the Code shall be valued at their present value (within the meaning of the Code).

Assignment to Trustee; Enforcement of Obligations. The Authority transfers, assigns and sets over to the Trustee, for the benefit of the Bondholders, and the Trustee accepts, all of the Revenues, all moneys, at any time held in the Bond Fund and the Reserve Fund established under the Indenture and any and all rights and privileges the Authority has under the Loan Agreement (except for the Authority's right under the Loan Agreement, and maintenance of the exclusion from gross income for federal tax purposes of interest on the Bonds); and any Revenues or other amounts payable to the Trustee under the Indenture or under the Loan Agreement which are collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee, and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to take all steps, actions and proceedings reasonably necessary in its judgment: (1) to enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under, the Loan Agreement and the Deed of Trust, and (2) to request compliance with all covenants, agreements and conditions on the part of the Authority contained in the Indenture with respect to the Revenues.

Amounts Remaining in the Bond Fund. When there are no longer any Bonds outstanding, and all fees, charges and expenses of the Trustee and any paying agents have been paid or provided for, all fees and expenses of the Authority relating to the Project and the Indenture have been paid or provided for, all other amounts payable under the Indenture and under the Loan Agreement have been paid, and the Indenture has been discharged and satisfied, the Trustee shall pay to the Borrower any moneys remaining in the Bond Fund.

COVENANTS OF THE AUTHORITY

Payment of Principal and Interest. The Authority shall punctually pay, but only out of Revenues as in the Indenture provided, the principal and the interest (and premium, if any) to become due in respect of every Bond issued under the Indenture at the times and places and in the manner provided in the Indenture and in the Bonds, according to the true intent and meaning thereof. When and as paid in full, all Bonds shall be delivered to the Trustee and shall forthwith be destroyed.

Paying Agents. The Trustee, with notice to the Authority, may appoint and at all times have one or more paying agents in such place or places as the either may designate, for the payment of the principal of, and the interest (and premium, if any) on, any Series of the Bonds. It shall be the duty of the Trustee to make such arrangements with any such paying agent as may be necessary and feasible to assure, to the extent of the moneys held by the Trustee for such payment, the availability of funds for the prompt payment of the principal of and interest and premium, if any, on the Bonds presented at either place of payment. The paying agent initially appointed under the Indenture is the Trustee.

Preservation of Revenues; Amendment of Documents. The Authority shall not take any action to interfere with or impair the pledge and assignment under the Indenture of Revenues and the assignment to the Trustee of rights of the Authority under the Loan Agreement or the Deed of Trust, or the Trustee's enforcement of any rights under the Indenture or thereunder, shall not take any action to impair the validity or enforceability of the Loan Agreement or the Deed of Trust, and shall not waive any of its rights under or any

other provision of or permit any amendment of the Loan Agreement or the Deed of Trust, without the prior written consent of the Trustee, provided that such consent of the Trustee shall not be required if the Trustee shall have received an opinion of Bond Counsel to the effect that such amendment (a) is required to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes or compliance by the Bonds or the Project with the laws of the State of California; or (b) will not adversely affect the interests of the Bondholders.

The Trustee may give such written consent, and may itself take any such action or consent to a waiver of any provision of or an amendment or modification to or replacement of the Loan Agreement, the Deed of Trust or any other document, instrument or agreement relating to the security for the Bonds, only if (i) such action or such waiver, amendment, modification or replacement (a) is authorized or required by the terms of the Indenture, the Loan Agreement or the Deed of Trust or (b) will not, based on an Opinion of Counsel furnished to the Trustee, materially adversely affect the interests of the holders of the Bonds or result in any impairment of the security by the Indenture given for the payment of the Bonds, or (c) has first been approved by the written consent of the holders of at least sixty percent (60%) in principal amount of the Bonds then outstanding; (ii) any such action or such waiver, amendment, modification or replacement will not have the effect of extending the time for payment or reducing the amount due and payable; and (iii) the Trustee shall have first obtained an opinion of Bond Counsel to the effect that such action or such waiver, amendment, modification or replacement will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes or conformance of the Bonds and the Project with the laws of the State of California relating to the Bonds.

Compliance with Indenture. The Authority shall not issue, or permit to be issued, any Bonds secured or payable in any manner out of Revenues in any manner other than in accordance with the provisions of the Indenture; it being understood that the Authority reserves the right to issue obligations payable from and secured by sources other than the Revenues and the assets assigned in the Indenture. The Authority shall not suffer or permit any default to occur under the Indenture, but shall faithfully observe and perform all the covenants, conditions and requirements of the Indenture. So long as any Bonds are outstanding, the Authority shall not create or suffer to be created any pledge, lien or charge of any type whatsoever upon all or any part of the Revenues, other than the lien of the Indenture.

No Arbitrage. The Authority shall not take, nor permit nor suffer to be taken by the Trustee or otherwise, any action with respect to the gross proceeds of the Tax-Exempt Bonds which if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of the issuance of the Bonds would have caused the Tax-Exempt Bonds to be "arbitrage bonds" within the meaning of the Code and Regulations promulgated thereunder.

Rebate of Excess Investment Earnings to United States. The Authority covenants with respect to the Tax-Exempt Bonds to cause the Borrower to retain the Rebate Analyst to calculate excess investment earnings to the extent required by the Code and to cause payment of an amount equal to excess investment earnings to the United States in accordance with the Regulations. The Borrower has agreed in the Loan Agreement to make or cause to be made such excess investment earnings calculations which are required pursuant to the Loan Agreement to be rebated to the United States. Such amounts shall be deposited by the Trustee in an account to be called the Rebate Account which the Trustee shall establish for such purpose, upon receipt from the Borrower.

Federal Guarantee Prohibition. The Authority shall take no action nor permit nor suffer any action to be taken if the result of the same would be to cause the Tax-Exempt Bonds to be "federally guaranteed" within the meaning of the Code.

Immunities and Limitations of Responsibility of Authority. The Authority shall be entitled to the advice of counsel (who, except as otherwise provided, may be counsel for any Bondholder), and the Authority shall be wholly protected as to action taken or omitted in good faith in reliance on such advice. The Authority may rely conclusively on any communication or other document furnished to it under the Indenture and reasonably believed by it to be genuine. The Authority shall not be liable for any action (a) taken by it in good faith and reasonably believed by it to be within its discretion or powers under the Indenture, or (b) in good faith omitted to be taken by it because such action was reasonably believed to be beyond its discretion or powers under the Indenture, or (c) taken by it pursuant to any direction or instruction by which it is governed under the Indenture, or (d) omitted to be taken by it by reason of the lack of any direction or instruction required by the Indenture for such action; nor shall it be responsible for the consequences of any error of judgment reasonably made by it. The Authority shall in no event be liable for the application or misapplication of funds or for other acts or defaults by any person, except its own officers and employees. When any payment or consent or other action by it is called for by the Indenture, it may defer such action pending receipt of such evidence (if any) as it may require in support thereof. The Authority shall not be required to take any remedial action (other than the giving of notice) unless indemnity in a form acceptable to the Authority is furnished for any expense or liability to be incurred in connection with such remedial action, other than liability for failure to meet the standards set forth in the Indenture. The Authority shall be entitled, following written notice to the Borrower, to reimbursement from the Borrower for its expenses reasonably incurred or advances reasonably made, with interest at the rate of interest on the Bonds, in the exercise of its rights or the performance of its obligations under the Indenture, to the extent that it acts without previously obtaining indemnity. No permissive right or power to act which the Authority may have shall be construed as a requirement to act; and no delay in the exercise of a right or power shall affect its subsequent exercise of the right or power.

Maintenance of Tax Exemption. The Authority shall take all actions necessary to assure the exclusion of interest on the Tax-Exempt Bonds from the gross income of the Owners of the Tax-Exempt Bonds to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date.

DEFAULT

Events of Default; Acceleration; Waiver of Default. Each of the following events shall constitute an "Event of Default" under the Indenture: (i) failure to pay the principal of or premium (if any) on any Bond when and as the same shall become due and payable, whether at maturity as therein expressed, by proceedings for redemption, by declaration or otherwise; (ii) failure to pay any installment of interest on any Bond when such interest installment shall become due and payable; (iii) failure by the Authority to perform or observe any other of the covenants, agreements or conditions on its part contained in the Indenture or in the Bonds, and the continuation of such failure for a period of thirty (30) days after written notice thereof, specifying such default and requiring the same to be remedied, shall have been given to the Authority and the Borrower by the Trustee, or to the Authority, the Borrower and the Trustee by the holders of not less than a majority in aggregate principal amount of the Bonds at the time outstanding; and (iv) if an "Event of Default" under the Loan Agreement has occurred and is continuing.

No default specified in (iii) above shall constitute an Event of Default unless the Authority and the Borrower shall have failed to correct such default within the applicable period; provided, however, that if the default shall be such that it cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Authority or the Borrower within the applicable period and diligently pursued until the default is corrected (provided that a default by reason of nonpayment of Trustee's fees and expenses may only be waived by the Trustee). With regard to any alleged default concerning which notice is given to the Borrower under the provisions of (iii) above, the Authority grants the Borrower full control for the account of the Authority to perform any covenant or obligation the non-performance of which is alleged in said notice to constitute a default in the name and stead of the Authority with full power to do any and all things

and acts to the same extent that the Authority could do and perform any such things and acts and with power of substitution.

During the continuance of an Event of Default described in (i) or (ii) above, unless the principal of all the Bonds shall have already become due and payable, the Trustee may, and, upon the written request of the owners of a majority in aggregate principal amount of the Bonds at the time outstanding, the Trustee shall, by notice in writing to the Authority and the Borrower, declare the principal of all the Bonds then outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable. Upon any such declaration of acceleration, the Trustee shall fix a date for payment of the Bonds, which date shall be as soon as practicable after such declaration.

The preceding paragraph, however, is subject to the condition that if, at any time after the principal of the Bonds shall have been so declared due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as in the Indenture provided, there shall have been deposited with the Trustee a sum sufficient to pay all the principal of the Bonds matured or required to be redeemed prior to such declaration and all matured installments of interest (if any) upon all the Bonds, with interest on such overdue installments of principal, and the reasonable fees and expenses of the Trustee, its agents and counsel, and any and all other defaults actually known to a Responsible Officer of the Trustee (other than in the payment of principal of and interest on the Bonds due and payable solely by reason of such declaration) shall have been made good or cured to the reasonable satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, then, and in every such case, the holders of at least sixty percent in aggregate principal amount of the Bonds then outstanding, by written notice to the Authority and to the Trustee and with indemnification satisfactory to the Trustee, may, on behalf of the holders of all the Bonds, rescind and annul such declaration and its consequences and waive such default; but no such rescission, annulment or waiver shall extend to or shall affect any subsequent default, or shall impair or exhaust any right or power consequent thereon.

Institution of Legal Proceedings by Trustee. If one or more of the Events of Default shall occur and be continuing, the Trustee in its discretion may, and upon the written request of the holders of a majority in principal amount of the Bonds then outstanding and, in the case of an Event of Default described (iii) of the first paragraph of the preceding section, upon being indemnified to its satisfaction therefor the Trustee shall, proceed to protect or enforce its rights or the rights of the holders of Bonds under the Indenture and the Loan Agreement by a suit in equity or action at law, either for the specific performance of any covenant or agreement contained in the Indenture or therein, or in aid of the execution of any power in the Indenture or therein granted, or by mandamus or other appropriate proceeding for the enforcement of any other legal or equitable remedy as the Trustee shall deem most effectual in support of any of its rights or duties under the Indenture; provided that any such request from the Bondholders shall not be in conflict with any rule of law or with the Indenture, expose the Trustee to personal liability or be unduly prejudicial to Bondholders not joining therein.

Notwithstanding the foregoing or any other provision of the Indenture, the Deed of Trust, the Trustee shall not be required to initiate foreclosure proceedings with respect to the Project, and shall not otherwise be required to acquire possession of, or take other action with respect to the Project which could cause it to be considered an "owner" or "operator" as described in the Loan Agreement, unless the requirements of the Loan Agreement are satisfied. The Trustee shall be entitled, as a matter of right and the Borrower agrees, to the appointment of a receiver for the property encumbered by the Deed of Trust or the Revenues.

Application of Moneys Collected by Trustee. Any moneys held in the funds and accounts under the Indenture and any money collected by the Trustee resulting from the legal proceedings referred to in the preceding section shall be applied in the order following, at the date or dates fixed by the Trustee and, in the case of distribution of such moneys on account of principal (or premium, if any) or interest, upon presentation of the Bonds and stamping thereon the payment, if only partially paid, and upon surrender thereof, if fully paid:

First: For payment of all amounts due to the Trustee under the Indenture.

Second: For deposit in the Bond Fund to be applied to payment of the principal of all Bonds then due and unpaid and the premium, if any, and interest thereon: ratably to the persons entitled thereto without discrimination or preference: except that no payment of principal, premium or interest shall be made with respect to any Bonds registered in the name of the Authority or the Borrower, or actually known by the Trustee to be registered in the name of any member, director or guarantor of the Borrower or any nominee of the Authority, the Borrower or any director or guarantor of the Borrower, until all amounts due on all Bonds not so registered have been paid (provided that the Trustee shall have no duty to investigate whether the Bonds are registered in the name of any member, director or guarantor of the Borrower).

Third: For payment of all other amounts due to any person under the Indenture or under the Loan Agreement, and, thereafter, to the Borrower.

Effect of Delay or Omission to Pursue Remedy. No delay or omission of the Trustee or of any holder of Bonds to exercise any right or power arising from any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every power and remedy given by the Indenture to the Trustee or to the holders of Bonds may be exercised from time to time and as often as shall be deemed expedient. In case the Trustee shall have proceeded to enforce any right under the Indenture, and such proceedings shall have been discontinued or abandoned because of waiver or for any other reason, or shall have been determined adversely to the Trustee, then and in every such case the Authority, the Trustee and the holders of the Bonds, severally and respectively, shall be restored to their former positions and rights under the Indenture in respect to the trust estate; and all remedies, rights and powers of the Authority, the Trustee and the holders of the Bonds shall continue as though no such proceedings had been taken.

Remedies Cumulative. No remedy conferred in the Indenture upon or reserved to the Trustee or to any holder of the Bonds is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Indenture or existing at law or in equity.

Covenant to Pay Bonds in Event of Default. The Authority covenants that, upon the happening of any Event of Default, the Authority will pay to the Trustee upon demand, but only out of Revenues, for the benefit of the holders of the Bonds, the whole amount then due and payable thereon (by declaration or otherwise) for interest or for principal and premium, or both, as the case may be, and all other sums which may be due under the Indenture or secured by the Indenture, including reasonable compensation to the Trustee, its agents and counsel, and any expenses or liabilities incurred by the Trustee under the Indenture. In case the Authority shall fail to pay the same forthwith upon such demand, the Trustee, in its own name and as trustee of an express trust, and upon being indemnified to its satisfaction shall be entitled to institute proceedings at law or in equity in any court of competent jurisdiction to recover judgment for the whole amount due and unpaid, together with costs and reasonable attorneys' fees, subject, however, to the condition that such judgment, if any, shall be limited to, and payable solely out of, Revenues and any other assets pledged, transferred or assigned to the Trustee under the Indenture as in the Indenture provided and not otherwise. The Trustee shall be entitled to recover such judgment as aforesaid, either before or after or during the pendency of any proceedings for the enforcement of the Indenture, and the right of the Trustee to recover such judgment shall not be affected by the exercise of any other right, power or remedy for the enforcement of the provisions of the Indenture.

Trustee Appointed Agent for Bondholders. The Trustee is appointed the agent of the holders of all Bonds outstanding under the Indenture for the purpose of filing any claims relating to the Bonds.

Power of Trustee to Control Proceedings. In the event that the Trustee, upon the happening of an Event of Default, shall have taken any action, by judicial proceedings or otherwise, pursuant to its duties under the Indenture, whether upon its own discretion or upon the written request of holders of a majority in principal amount of the Bonds then outstanding or, in the case of an Event of Default described in the Indenture, it shall have full power, in the exercise of its discretion for the best interests of the holders of the Bonds, with respect to the continuance, discontinuance, withdrawal, compromise, settlement or other disposal of such action; provided, however, that the Trustee shall not, unless there no longer continues an Event of Default under the Indenture, 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 holders of at least a majority in principal amount of the Bonds outstanding under the Indenture opposing such discontinuance, withdrawal, compromise, settlement or other disposal of such litigation.

Limitation on Bondholders' Right to Sue. No holder of any Bond issued under the Indenture shall have the right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Indenture, unless (a) such holder shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Indenture; (b) the holders of at least a majority in aggregate principal amount of all the Bonds then outstanding shall have made written request upon the Trustee to exercise the powers granted or to institute such action, suit or proceeding in its own name; (c) said holders shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of thirty (30) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee.

Such notification, request, tender of indemnity and refusal or omission are declared, in every case, to be conditions precedent to the exercise by any holder of Bonds of any remedy under the Indenture; it being understood and intended that no one or more holders of Bonds shall have any right in any manner whatever by its or their action to enforce any right under the Indenture, except in the manner provided in the Indenture, and that all proceedings at law or in equity to enforce any provision of the Indenture shall be instituted, had and maintained in the manner provided in the Indenture and for the equal benefit of all holders of the outstanding Bonds.

The right of any holder of any Bond to receive payment of the principal of (and premium, if any) and interest on such Bond out of Revenues, as in the Indenture and therein provided, on and after the respective due dates expressed in such Bond, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such holder, notwithstanding the foregoing provisions of the Indenture or any other provision of the Indenture.

Limitation of Liability to Revenues. Notwithstanding anything in the Indenture contained, the Authority shall not be required to advance any moneys derived from the proceeds of taxes collected by the Authority or any of its Members, by the State of California or by any political subdivision thereof or from any source of income of any of the foregoing other than the Revenues, for any of the purposes mentioned in the Indenture, whether for the payment of the principal of or interest on the Bonds or for any other purpose of the Indenture. The Bonds are limited obligations of the Authority, and are payable from and secured by the Revenues only.

THE TRUSTEE AND AGENTS

Duties, Immunities and Liabilities of Trustee. The Trustee shall perform such duties and only such duties as are specifically set forth in the Indenture and no additional covenants or duties of the Trustee shall be implied in the Indenture, the Loan Agreement or otherwise. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as reasonable persons familiar with such matters would exercise or use under similar circumstances in the conduct of their own affairs.

No provision of the Indenture shall be construed to relieve the Trustee from liability for its own willful misconduct, its own negligent action or its own negligent failure to act, except that: (i) the duties and obligations of the Trustee shall be determined solely by the express provisions of the Indenture, the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in the Indenture, and no implied covenants or obligations shall be read into the Indenture against the Trustee; and in the absence of bad faith on the part of the Trustee, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon any certificate or opinion furnished to the Trustee conforming to the procedural requirements of the Indenture; but in the case of any such certificate or opinion which by any provision of the Indenture is specifically required to be furnished to the Trustee, the Trustee shall be under a duty to examine the same to determine whether or not it conforms to the procedural requirements of the Indenture; (ii) at all times, regardless of whether or not any Event of Default shall exist, (1) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or officers or by any agent or attorney of the Trustee appointed with due care unless (except as otherwise provided in the Indenture) the Trustee was negligent in ascertaining the pertinent facts; and (2) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Authority, accompanied by an opinion of Bond Counsel as provided in the Indenture or in accordance with the directions of the holders of not less than a majority, or such other percentage as may be required under the Indenture, in aggregate principal amount of the Bonds at the time outstanding relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture; (iii) the Trustee shall not be required to take notice or be deemed to have notice of any default under the Indenture or under the Loan Agreement, except defaults under the Indenture, unless a Responsible Officer of the Trustee shall be specifically notified in writing of such default by the Authority or the owners of at least twenty-five percent (25%) in aggregate principal amount of all Bonds then outstanding; (iv) before taking any action under the Indenture at the request or direction of the Bondholders or the Trustee may require that a satisfactory indemnity bond be furnished by the Bondholders, for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which is adjudicated to have resulted from its negligence or willful misconduct in connection with any action so taken; provided, however, the Trustee shall make payments of the principal and purchase price of and redemption premium, if any, and interest on the Bonds when due and payable, all as set forth in the Indenture, and shall effect any redemption of Bonds or acceleration of Bonds, all as set forth in the Indenture, notwithstanding any requirement by the Trustee for the provision of an indemnity bond as set forth above; (v) upon any application or request by the Authority to the Trustee to take any action under any provision of the Indenture, the Authority shall furnish to the Trustee a Certificate of the Authority stating that all conditions precedent, if any, provided for in the Indenture relating to the proposed action have been complied with, and an Opinion of Counsel stating that in the opinion of such Counsel all such conditions precedent, if any, have been complied with, except that in the case of any such application or request as to which the furnishing of such documents is specifically required by any provision of the Indenture relating to such particular application or request, no additional certificate or opinion need be furnished; (vi) the Trustee may execute any of the trusts or powers under the Indenture or perform any duties under the Indenture or under the Loan Agreement either directly or through agents or attorneys and the Trustee shall not be responsible for any negligence or misconduct on the part of any agent or attorney appointed with due care by it under the Indenture; (vii) neither the Authority nor the Borrower shall be deemed to be agents of the Trustee for any purpose, and the Trustee shall not be liable for any noncompliance of any of them in connection with their respective duties under the Indenture or in connection with the transactions contemplated by the Indenture;

(viii) the Trustee shall be entitled to rely upon telephonic notice for all purposes whatsoever so long as the Trustee reasonably believes such telephonic notice has been given by a person authorized to give such notice; (ix) the inununities extended to the Trustee also extend to its directors, officers, employees and agents; (x) under no circumstances shall the Trustee be liable in its individual capacity for the obligations evidenced by the Bonds, it being the sole obligation of the Trustee to administer, for the benefit of the Bondholders, the various funds and accounts established under the Indenture; and (xi) no permissive power, right or remedy conferred upon the Trustee under the Indenture shall be construed to impose a duty to exercise such power, right or remedy.

None of the provisions contained in the Indenture shall require the Trustee to expend or risk its own funds or otherwise incur individual financial liability in the performance of any of its duties or in the exercise of any of its rights or powers. Whether or not therein expressly so provided, every provision of the Indenture, the Loan Agreement, the Deed of Trust or any other document relating to the conduct, powers or duties of, or affecting the liability of, or affording protection to, the Trustee shall be subject to the provisions of the Indenture.

Right of Trustee to Rely Upon Documents, Etc. Except as otherwise provided in the Indenture: (i) the Trustee may rely and shall be protected in acting or refraining from acting upon any written resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties; (ii) in order to be binding upon the Trustee, any consent, demand, direction, election, notice, order or request of the Authority mentioned in the Indenture shall be sufficiently evidenced by a Written Consent, Written Demand, Written Direction, Written Election, Written Notice, Written Order or Written Request of the Authority, and any resolution of the Authority may be evidenced to the Trustee by a Certified Resolution; (iii) the Trustee may consult with counsel (who may be counsel for the Authority, counsel for the Trustee or Bond Counsel) and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Indenture in good faith and in accordance with the opinion of such counsel; (iv) whenever in the administration of the trusts of the Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Indenture, such matter (unless other evidence in respect thereof be in the Indenture specifically prescribed) may, in the absence of negligence or bad faith on the part of the Trustee, be deemed to be conclusively proved and established by a Certificate of the Authority; and such Certificate of the Authority shall, in the absence of negligence or bad faith on the part of the Trustee, be full warrant to the Trustee for any action taken or suffered by it under the provisions of the Indenture upon the faith thereof, and (v) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Agency and the Borrower personally or by agent or attorney.

Intervention by Trustee. The Trustee may intervene on behalf of the Bondholders in any judicial proceeding to which the Authority is a party and which, in the opinion of the Trustee and its counsel, has a substantial bearing on the interests of owners of the Bonds and, subject to the provisions of the Indenture, shall do so if requested in writing by the owners of a majority in aggregate principal amount of all Bonds then outstanding.

Moneys Received by Trustee to be Held in Trust. All moneys received by the Trustee shall, until used or applied as in the Indenture provided, be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law or as otherwise provided in the Indenture. The Trustee shall be under no liability for interest on any moneys received by it under the Indenture except such as it may agree with the Authority to pay thereon. Any moneys held by the Trustee may be deposited by it in its banking department and invested in Investment Securities.

Qualifications of Trustee. There shall at all times be a trustee under the Indenture which shall be a corporation or banking association organized and doing business under the laws of the United States or of a state thereof, authorized under such laws to exercise corporate trust powers, having (or if such corporation or banking association is a member of a bank holding company system, its bank holding company has) a combined capital and surplus of at least \$50,000,000, and subject to supervision or examination by federal or state authority. If such corporation or banking association publishes reports of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purposes of the Indenture the combined capital and surplus of such corporation or banking association shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of the Indenture, the Trustee shall resign immediately in the manner and with the effect specified in the Indenture.

Resignation and Removal of Trustee and Appointment of Successor Trustee. The Trustee may at any time resign by giving written notice delivered to the Authority and the Borrower and by giving written notice to the Bondholders by first class mail. Upon receiving such notice of resignation, the Authority shall promptly appoint a successor trustee by an instrument in writing. If no successor trustee shall have been so appointed and have accepted appointment within 45 days after the giving of such notice of resignation, the resigning trustee may petition any court of competent jurisdiction for the appointment of a successor trustee, or any Bondholder who has been a bona fide holder of a Bond for at least six months may, on behalf of itself and others similarly situated, petition any such court for the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, appoint a successor trustee.

In case at any time either (1) the Trustee shall cease to be eligible in accordance with the provisions of the Indenture and shall fail to resign after written request therefor by the Authority or by any Bondholder who has been a bona fide holder of a Bond for at least six months, or (2) the Trustee shall become incapable of acting, or shall be adjudged to be bankrupt or insolvent, or a receiver of the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, then, in any such case, the Authority shall remove the Trustee and, upon such removal or upon any removal pursuant to paragraph (c) of the Indenture, except as otherwise provided in said paragraph (c), shall appoint a successor trustee by an instrument in writing, or any such Bondholder may, on behalf of itself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor trustee. Such court may thereupon, after such notice, if any, as it may deem proper and may prescribe, remove the Trustee and appoint a successor trustee.

The Authority, or if an Event of Default has occurred and is continuing, the holders of a majority in aggregate principal amount of the Bonds at the time outstanding may at any time upon 30 days' prior written notice remove the Trustee and may appoint a successor trustee, by an instrument or concurrent instruments in writing signed by the Authority or such Bondholders, as the case may be, and delivered to the Trustee and the Authority.

Any resignation or removal of the Trustee and appointment of a successor trustee pursuant to any of the provisions of the Indenture shall become effective only upon acceptance of appointment and assumption of duties by the successor trustee as provided in the Indenture.

Acceptance of Trust by Successor Trustee. Any successor trustee appointed as provided in the Indenture shall execute, acknowledge and deliver to the Authority and to its predecessor trustee an instrument accepting such appointment under the Indenture, and thereupon the resignation or removal of the predecessor trustee shall become effective and such successor trustee, without any further act, deed or conveyance, shall become vested with and shall assume all the rights, powers, trusts, duties and obligations of its predecessor in the trusts under the Indenture, with like effect as if originally named as Trustee in the Indenture; but, nevertheless, on the Written Request of the Authority or the request of the successor trustee, the trustee ceasing to act shall execute and deliver an instrument transferring to such successor trustee, upon the trusts in the

Indenture expressed. all the rights, powers and trusts of the trustee so ceasing to act. Upon request of any such successor trustee, the Authority shall execute any and all instruments in writing necessary or desirable for more fully and certainly vesting in and confirming to such successor trustee all such rights, powers and duties. Any trustee ceasing to act shall, nevertheless, retain a lien upon all property or funds held or collected by such trustee to secure the amounts due it as compensation, reimbursement, expenses and indemnity afforded to it by the Indenture.

No successor trustee shall accept appointment as provided in the Indenture unless at the time of such acceptance such successor trustee shall be eligible under the provisions of the Indenture.

Upon acceptance of appointment by a successor trustee as provided in the Indenture, the Authority or such successor trustee shall give Bondholders notice by first class mail of the succession of such trustee to the trusts under the Indenture.

In the event of the appointment of a successor Trustee, the predecessor Trustee which has resigned or been removed shall cease to be Trustee of the funds under the Indenture and bond registrar and paying agent for the Bonds, and the successor Trustee shall become such trustee and shall accept such other appointments as the trustee may hold, including the offices of bond registrar and paying agent under the Indenture.

Merger or Consolidation of Trustee. Any corporation or association into which the Trustee may be merged or with which it may be consolidated, or any corporation or association resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation or association succeeding to the corporate trust business of the Trustee, shall be the successor of the Trustee under the Indenture without the execution or filing of any paper or any further act, anything in the Indenture to the contrary notwithstanding, provided that such successor trustee shall be eligible under the provisions of the Indenture.

MODIFICATION OF INDENTURE

Modification of Indenture without Consent of Bondholders. The Authority and the Trustee, with the written consent of the Borrower, which consent shall not be unreasonably withheld, from time to time and at any time, subject to the conditions and restrictions in the Indenture contained, may enter into an indenture or indentures supplemental to the Indenture, which indenture or indentures thereafter shall form a part of the Indenture, for any one or more of the following purposes: (i) to add to the covenants and agreements of the Authority in the Indenture contained, other covenants and agreements thereafter to be observed, or to assign or pledge additional security for the Bonds, or to surrender any right or power in the Indenture reserved or conferred upon the Authority; provided that no such covenant, agreement, assignment, pledge or surrender shall materially adversely affect the interests of the holders of the Bonds; (ii) to evidence the succession of a new Trustee under the Indenture, or to provide for the appointment of a co-trustee or for a paying agent in addition to the Trustee; (iii) to make such provisions for the purpose of curing any ambiguity, inconsistency or omission, or of curing, correcting or supplementing any defective provision contained in the Indenture, or in regard to matters or questions arising under the Indenture, as the Authority may deem necessary or desirable and not inconsistent with the Indenture and which shall not materially adversely affect the interests of the holders of the Bonds; (iv) to provide for the issuance of coupon bonds or to provide for the use of a book-entry system; provided, however, that the Authority and the Trustee shall have received an opinion of Bond Counsel to the effect that issuance of the Bonds in coupon form or the use of a book-entry system, respectively, complies with all applicable laws and will not adversely affect the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes; (v) to modify, amend or supplement the Indenture or any indenture supplemental to the Indenture to in such manner as to permit the qualification of the Indenture or thereof under the Trust Indenture Act of 1939, as amended, or any similar federal statute in effect, and, if they so determine, to add to the Indenture or any indenture supplemental to such other terms, conditions and provisions as may be permitted by said Trust Indenture Act of 1939, as amended, or similar federal statute, and which shall not materially adversely affect the interests of the holders of the Bonds; and (vi) to make such

additions, deletions or modifications as may be necessary to assure compliance with the Code, or otherwise to assure the exclusion from gross income under federal tax law of interest on the Tax-Exempt Bonds.

Any supplemental indenture authorized by the provisions of the Indenture may be executed by the Authority and the Trustee without the consent of or notice to the holders of any of the Bonds at the time outstanding, notwithstanding any of the provisions of the Indenture, but (i) the Trustee shall not be obligated to enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under the Indenture or otherwise; and (ii) the Trustee shall not enter into any such supplemental indenture which affects the rights or obligations of the Borrower under the Indenture, under the Occupancy Agreement or under the Loan Agreement without first obtaining the written consent of the Borrower and the Authority.

Modification of Indenture with Consent of Bondholders. With the prior written consent of the Borrower and the consent of the holders of not less than sixty percent (60%) in aggregate principal amount of each series of Bonds at the time outstanding, evidenced as provided in the Indenture, the Authority and the Trustee may from time to time and at any time enter into an indenture or indentures supplemental to the Indenture for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of the Indenture or of any supplemental indenture; provided, however, that, except to the extent permitted by the Indenture, no such supplemental indenture shall (1) extend the fixed maturity of any Bond or reduce the rate of interest thereon or extend the time of payment of interest, or reduce the amount of the principal thereof, or reduce any premium payable on the redemption thereof, without the consent of the holder of each Bond so affected, or (2) reduce the aforesaid percentage of holders of Bonds whose consent is required for the execution of such supplemental indentures, or permit the creation of any lien on the Revenues prior to or on a parity with the lien of the Indenture, except as permitted in the Indenture, or permit the creation of any preference of any Bondholder over any other Bondholder or deprive the holders of the Bonds of the lien created by the Indenture upon the Revenues, or impair the right of the owners of Bonds to demand purchase thereof pursuant to the Indenture, without in each case the consent of the holders of all the Bonds then outstanding. Nothing in this paragraph shall be construed as making necessary the approval of any Bondholder of any supplemental indenture permitted by the provisions of the Indenture. Upon receipt by the Trustee of a Certified Resolution authorizing the execution of any such supplemental indenture, and upon the filing with the Trustee of evidence of the consent of Bondholders, as aforesaid, the Trustee shall join with the Authority in the execution of such supplemental indenture, unless (i) such supplemental indenture affects the Trustee's own rights, duties or immunities under the Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such supplemental indenture; or (ii) such supplemental indenture affects the rights or obligations of the Borrower under the Indenture or under the Loan Agreement, in which case the Trustee shall enter into such supplemental indenture only if the Trustee has received the Borrower's written consent thereto.

It shall not be necessary for the consent of the Bondholders under the Indenture to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such consent shall approve the substance thereof. Promptly after the execution by the Authority and the Trustee of any supplemental indenture pursuant to the provisions of the Indenture, the Trustee shall give the Bondholders, by first class mail, a notice setting forth in general terms the substance of such supplemental indenture. Any failure of the Trustee to give such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such supplemental indenture.

Effect of Supplemental Indenture Upon the execution of any supplemental indenture pursuant to the provisions of the Indenture, the Indenture shall be and be deemed to be modified and amended in accordance therewith, and the respective rights, duties and obligations under the Indenture of the Authority, the Trustee and all holders of outstanding Bonds shall thereafter be determined, exercised and enforced under the Indenture subject in all respects to such modifications and amendments, and all the terms and conditions of any such supplemental indenture shall be part of the terms and conditions of the Indenture for any and all purposes.

Opinion of Counsel as to Supplemental Indenture. Subject to the provisions of the Indenture, the Trustee shall be entitled to receive, and shall be fully protected in relying upon, an Opinion of Counsel as conclusive evidence that any supplemental indenture executed pursuant to the provisions of the Indenture is authorized and permitted by the Indenture and does not have a material adverse effect on the exclusion from gross income for federal income tax purposes of interest on the Tax-Exempt Bonds.

DEFEASANCE

Discharge of Indenture. If the entire indebtedness on all Bonds outstanding shall be paid and discharged in any one or more of the following ways: (i) by the payment of the principal of (including redemption premium, if any) and interest on all Bonds outstanding; or (ii) by the deposit or credit to the account of the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem Bonds outstanding, whether by redemption or otherwise; or (iii) by the delivery to the Trustee, for cancellation by it, of all Bonds outstanding; and if all other sums payable under the Indenture by the Authority shall be paid and discharged, then and in that case the Indenture shall cease, terminate and become null and void, except only as provided, in the Indenture, and thereupon the Trustee shall, upon Written Request of the Authority, and upon receipt by the Trustee of a Certificate of the Authority and an Opinion of Counsel, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Indenture. The fees, expenses and charges of the Trustee (including reasonable counsel fees) must be paid in order to effect such discharge. The satisfaction and discharge of the Indenture shall be without prejudice to the rights of the Trustee to charge and be reimbursed by the Borrower for any expenditures which it may thereafter incur in connection with the Indenture.

Discharge of Liability on Bonds. Upon the deposit with the Trustee, in trust, at or before maturity, of money or securities in the necessary amount (as provided in the Indenture) to pay or redeem outstanding Bonds (whether upon or prior to their maturity or the redemption date of such Bonds) provided that, if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given as in the Indenture provided or provision satisfactory to the Trustee shall have been made for the giving of such notice, all liability of the Authority in respect of such Bonds shall cease, terminate and be completely discharged, except only that thereafter the holders thereof shall be entitled to payment by the Authority, and the Authority shall remain liable for such payment, but only out of the money or securities deposited with the Trustee as aforesaid for their payment, subject, however, to the provisions of the Indenture.

Payment of Bonds after Discharge of Indenture. Notwithstanding any provisions of the Indenture, any moneys deposited with the Trustee or any paying agent in trust for the payment of the principal of, or interest or premium on, any Bonds remaining unclaimed for two years after the principal of all the outstanding Bonds, or any interest thereon, has become due and payable (whether at maturity or upon call for redemption or by declaration as provided in the Indenture), shall then be paid to the Authority, and the holders of such Bonds shall thereafter be entitled to look only to the Authority for payment thereof, and only to the extent of the amount so paid to the Authority, and all liability of the Trustee or any paying agent with respect to such moneys shall thereupon cease. In the event of the payment of any such moneys to the Authority as aforesaid, the holders of the Bonds in respect of which such moneys were deposited shall thereafter be deemed to be unsecured creditors of the Authority for amounts equivalent to the respective amounts deposited for the payment of such Bonds and so paid to the Authority (without interest thereon).

Deposit of Money or Securities with Trustee. Whenever in the Indenture it is provided or permitted that there be deposited with or credited to the account of or held in trust by the Trustee money or securities in the necessary amount to pay or redeem any Bonds, the money or securities so to be deposited or held shall be Available Amounts (or Federal Securities purchased with Available Amounts) constituting: (i) lawful money of the United States of America in an amount equal to the principal amount of such Bonds and all unpaid interest thereon to maturity, except that, in the case of Bonds which are to be redeemed prior to maturity and in respect of which there shall have been furnished to the Trustee proof satisfactory to it that notice of such

redemption on a specified redemption date has been duly given or provision satisfactory to the Trustee shall be made for such notice. the amount so to be deposited or held shall be the principal amount of such Bonds and interest thereon to the redemption date. together with the redemption premium, if any: or (ii) noncallable and nonprepayable direct obligations of the United States of America or noncallable and nonprepayable obligations which as to principal and interest constitute full faith and credit obligations of the United States of America, in such amounts and maturing at such times that the proceeds of said obligations received upon their respective maturities and interest payment dates, without further reinvestment, will provide funds sufficient, in the opinion of a nationally recognized firm of certified public accountants, to pay the principal, premium, if any, and interest to maturity, or to the redemption date, as the case may be, with respect to all of the Bonds to be paid or redeemed, as such principal, premium and interest become due: provided that the Trustee shall have been irrevocably instructed by the Authority to apply the proceeds of said obligations to the payment of said principal, premium, if any, and interest with respect to such Bonds.

MISCELLANEOUS

Limitation of Rights to Parties and Bondholders. Nothing in the Indenture or in the Bonds expressed or implied is intended or shall be construed to give to any person other than the Authority, the Trustee, the Agents, the Borrower and the holders of the Bonds issued under the Indenture any legal or equitable right, remedy or claim under or in respect of the Indenture or any covenant, condition or provision therein or in the Indenture contained: and all such covenants, conditions and provisions are and shall be held to be for the sole and exclusive benefit of the Authority, the Trustee, the Borrower and the holders of the Bonds issued under the Indenture.

Evidence of Rights of Bondholders. Any request, consent or other instrument required by the Indenture to be signed and executed by Bondholders may be in any number of concurrent writings of substantially similar tenor and may be signed or executed by such Bondholders in person or by agent or agents duly appointed in writing. Proof of the execution of any such request, consent or other instrument or of a writing appointing any such agent, or of the ownership of any Bonds, shall be sufficient for any purpose of the Indenture and shall be conclusive in favor of the Trustee and of the Authority if made in the manner provided in the Indenture.

The fact and date of the execution by any person of any such request, consent or other instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer of any jurisdiction, authorized by the laws thereof to take acknowledgments of deeds, certifying that the person signing such request, consent or other instrument or writing acknowledged to him the execution thereof.

The ownership of Bonds shall be proved by the Bond register maintained pursuant to the Indenture. The fact and the date of execution of any request, consent or other instrument and the amount and distinguishing numbers of Bonds held by the person so executing such request, consent or other instrument may also be proved in any other manner which the Trustee may deem sufficient. The Trustee may nevertheless, in its discretion, require further proof in cases where it may deem further proof desirable.

Any request, consent or vote of the holder of any Bond shall bind every future holder of the same Bond and the holder of any Bond issued in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Authority in pursuance of such request, consent or vote.

In determining whether the holders of the requisite aggregate principal amount of Bonds have concurred in any demand, request, direction, consent or waiver under the Indenture, Bonds which are owned by the Authority or by any other direct or indirect obligor on the Bonds, or by any person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or any other direct or indirect obligor on the Bonds, shall be disregarded and deemed not to be outstanding for the purpose of any such determination, provided that, for the purpose of determining whether the Trustee shall be protected in

relying on any such demand, request, direction, consent or waiver, only Bonds which the Trustee knows to be so owned shall be disregarded. Bonds so owned which have been pledged in good faith may be regarded as outstanding for the purposes of this subsection if the pledgee shall establish to the satisfaction of the Trustee and the Authority the pledgee's right to vote such Bonds and that the pledgee is not a person directly or indirectly controlling or controlled by, or under direct or indirect common control with, the Authority or any other direct or indirect obligor on the Bonds. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee. Solely for purposes of the limitation expressed in this paragraph, the Borrower shall be deemed to be an indirect obligor on the Bonds.

In lieu of obtaining any demand, request, direction, consent or waiver in writing, the Trustee may call and hold a meeting of the Bondholders upon such notice and in accordance with such rules and regulations as the Trustee considers fair and reasonable for the purpose of obtaining any such action.

Waiver of Personal Liability. No officer, agent or employee of the Authority, and no officer, official, agent or employee of the State of California or any department, board or agency of any of the foregoing, shall be individually or personally liable for the payment of the principal of or premium or interest on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof; but nothing in the Indenture contained shall relieve any such person from the performance of any official duty provided by the Indenture.

Governing Law. The Indenture shall be governed by and construed in accordance with the laws of the State of California.

THE LOAN AGREEMENT

FINANCING OF THE PROJECT; ISSUANCE OF THE BONDS

Disbursement From the Project Fund. The Authority has authorized and directed the Trustee to disburse proceeds of the Bonds from the Project Fund created pursuant to the Indenture to pay for Project Costs pursuant the Indenture. Neither the Trustee nor the Authority shall be responsible for the application by the Borrower of moneys disbursed in accordance with the Loan Agreement.

Gross Project Revenue Fund. The Borrower agrees that, so long as any amounts due the Loan Agreement remain unpaid, all of the Gross Project Revenues shall be deposited as soon as practicable upon receipt by the Borrower (but in any event within three (3) Business Days of receipt) in a fund designated as the "Gross Project Revenue Fund" which the Borrower shall establish and maintain with the Trustee, subject to the provisions of the Loan Agreement, in an account or accounts established for such purpose. Subject only to the provisions of the Loan Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Loan Agreement, the Borrower pledges, and to the extent permitted by law grants a security interest to the Trustee in, the Gross Project Revenue Fund and all of the Gross Project Revenues to secure the payment of the Loan and the performance by the Borrower of its other obligations under the Loan Agreement.

The Loan Agreement creates a valid and binding lien in favor of the Trustee as security for payment of the Bonds, enforceable by the Trustee in accordance with the terms of the Loan Agreement.

Amounts deposited by the Borrower in the Gross Project Revenue Fund shall be applied pursuant to the provisions of the Loan Agreement.

Neither the Trustee nor the Authority shall be liable for the application by the Borrower of any funds withdrawn from the Operation and Maintenance Fund under the Loan Agreement.

Investment of Moneys; Arbitrage. Upon written direction of the Borrower and otherwise as provided in the Indenture, any moneys in any fund or account held by the Trustee under the Loan Agreement shall be invested or reinvested by the Trustee in Investment Securities, subject to the covenants of the Loan Agreement.

Limited Liability. All obligations of the Authority incurred under the Loan Agreement shall be limited obligations of the Authority, payable solely and only from Proceeds of the sale of the Bonds, the Project, Gross Project Revenues pledged under the Loan Agreement and from the funds and accounts pledged therefor under the Indenture. The Bonds, and the interest thereon, do not constitute a debt, liability, general or moral obligation or pledge of the faith or loan of the credit of the Authority, any of its Members or the State or any other political subdivision of the State, within the meaning of any constitutional or statutory limitation or provisions. Neither the faith and credit of the Authority, any of its Members nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or premium, if any, or interest on the Bonds or any other costs incident thereto.

Operation and Maintenance Fund. Subject only to the provisions of the Loan Agreement permitting the application thereof for the purposes and on the terms and conditions set forth in the Loan Agreement, the Borrower by the Loan Agreement pledges and, to the extent permitted by law, grants a security interest to the Trustee in such Operation and Maintenance Fund.

The Borrower shall pay annual Expenses of Operating and Maintaining the Project, as set forth in the Operating Budget for such year, from moneys deposited into the Operation and Maintenance Fund. Any amounts remaining in the Operation and Maintenance Fund at the end of any Fiscal Year after payment of the Expenses of Operating and Maintaining the Project for such period in excess 1/6 of the Expenses of Operating and Maintaining the Project budgeted for the next succeeding Fiscal Year shall be transferred to the Gross Project Revenue Fund and applied in accordance with the Loan Agreement.

Amounts in the Operation and Maintenance Fund, if any, may be used and withdrawn by the Borrower, upon Written Request of the Borrower provided to the Trustee, at any time for any lawful purpose consistent with the Operating Budget for the Project provided pursuant to the Loan Agreement, except as provided in the Loan Agreement. In the event that (i) the Borrower is delinquent in the repayment of the Loan under the Loan Agreement, or (ii) an Event of Default under the Loan Agreement has occurred which has not been cured, the Trustee may, unless and until such delinquency and/or default is cured in accordance with applicable cure periods, thereafter exercise its rights as a secured party in the Operation and Maintenance Fund. During any such period, deposits of Gross Project Revenues to the Operations and Maintenance Fund shall be made after the payment to the Bond Fund pursuant to the Loan Agreement.

During any period that the Trustee is required to exercise its rights as a secured party as set forth in the preceding paragraph, the Trustee shall use and withdraw amounts in Operation and Maintenance Fund from time to time, without the need for any consent or request of (but with prior written notice to) the Borrower, to make Loan repayments and the other payments required of the Borrower under the Loan Agreement, in accordance with the Loan Agreement. During such period, the Borrower shall not be entitled to use or withdraw any of the amounts on deposit in the Operation and Maintenance Fund (or any Gross Project Revenues) for the payment of current or past due operating expenses of the Borrower, including fees due under any management agreement for the Project, unless and to the extent that the Trustee receives a certificate of the Borrower certifying that such moneys will be used for Expenses of Operating and Maintaining the Project or the Management Fee consistent with the Operating Budget for the Project provided pursuant to the Loan Agreement, and providing a description of (and a corresponding invoice for) the use thereof.

LOAN OF PROCEEDS: PAYMENT PROVISIONS

Loan Repayment and Payment of Other Amounts. The Borrower has agreed to repay the Loan in the amounts and at the times necessary to enable the Trustee, on behalf of the Authority, to pay when due all amounts payable with respect to the Bonds when due, whether at maturity or by redemption (with premium, if applicable) or otherwise.

The Borrower agrees: (i) to pay to the Trustee from time to time reasonable compensation for all services rendered by it under the Indenture and the other agreements relating to the Bonds to which the Trustee is a party; (ii) except as otherwise expressly provided in the Indenture or such other agreements, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances (including reasonable counsel fees) incurred or made by the Trustee in accordance with any provision of the Indenture or other agreements to which the Trustee is a party or pursuant to which it is required to act (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to the Trustee's negligence or willful misconduct; (iii) to indemnify the Trustee for, and hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust under the Indenture or any other agreement relating to the Bonds to which the Trustee is a party or pursuant to which it is required to act, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties thereunder; and (iv) to pay any annual fee of any paying agents, and any other amounts referred to in the Indenture.

The Borrower also agrees to pay within thirty (30) days after receipt of request for payment thereof, all expenses of the Authority directly related to the Project and the financing thereof that are not otherwise required to be paid by the Borrower under the terms of the Loan Agreement and are not paid from the Cost of Issuance Fund under the Indenture, which includes reasonable legal fees and expenses incurred in connection with the amendment, interpretation and enforcement of any documents relating to the Project or the Bonds, taxes and assessments of any type or character charged to the Authority in connection with the transactions contemplated by the Loan Agreement, such amounts as may be necessary to satisfy the rebate requirements in accordance with the Tax Certificate and to pay the cost of calculation of such rebate requirements, and any costs incurred by the Authority to provide notice required by the Indenture.

Notwithstanding anything in the Loan Agreement to the contrary, the Borrower shall pay the Authority on February 1 of each year, commencing February 1, 2004, an annual fee which shall equal to .01% of the aggregate principal amount of Bonds outstanding as of the immediately preceding January 1.

Unconditional Obligations. The obligations of the Borrower to make the payments required by the Loan Agreement and to perform and observe the other agreements on its part contained in the Loan Agreement shall be absolute and unconditional, irrespective of any defense or any rights of set-off, recoupment or counterclaim it might otherwise have against the Authority or the Trustee, and during the term of the Loan Agreement, the Borrower shall pay absolutely net the payments required under the Loan Agreement, free of any deductions and without abatement, diminution or set-off. Until such time as the principal of, premium, if any, and interest on the Bonds shall have been fully paid, or provision for the payment thereof shall have been made as required by the Indenture, the Borrower (i) will not suspend or discontinue any payments provided for in the Loan Agreement; (ii) will perform and observe all of its other covenants contained in the Loan Agreement; and (iii) except as provided in the Loan Agreement, will not terminate the Loan Agreement for any cause, including, without limitation, the occurrence of any act or circumstances that may constitute failure of consideration, destruction of or damage to the Project, commercial frustration of purpose, any change in the tax or other laws of the United States of America or of the State of California or any political subdivision or either of these, or any failure of the Authority or the Trustee to perform and observe any covenant, whether express or implied, or any duty, liability or obligation arising out of or connected with the Loan Agreement or the Indenture, except to the extent permitted by the Loan Agreement.

Notwithstanding any provision of the Loan Agreement, the Occupancy Agreement or the Deed of Trust (collectively, the "Project Loan Documents") to the contrary, the Borrower shall not be personally liable for the amounts owing under the Loan Agreement (other than for indemnity and fees and any rebate obligations as provided below) or under the Project Loan Documents; and the Authority's and the Trustee's remedies in the event of a default under the Loan Agreement or under the Project Loan Documents shall be limited to those remedies set forth in the Loan Agreement. In the event of a default under the Loan Agreement or under the Deed of Trust, except to the extent provided in the next sentence, neither the Authority nor the Trustee shall have the right to proceed directly against the Borrower (rather than the Project), or the right to obtain a deficiency judgment after foreclosure. Nothing in the Loan Agreement shall preclude the Authority or the Trustee from proceeding directly against the Borrower in connection with the following: (i) the obligation of the Borrower to indemnify the Authority and the Trustee under the Loan Agreement; (ii) the obligation of the Borrower to make any payment to the Authority, the Trustee or the federal government required to be paid by the Borrower pursuant to the provisions of the Loan Agreement; (iii) the application by the Borrower in violation of the Deed of Trust or the Loan Agreement of any condemnation award or insurance awards attributable to the Project; (iv) the application of rents or security deposits attributable to the Project other than as permitted by the Deed of Trust and applicable law; (v) the obligation of the Borrower under any provision regarding hazardous materials; and (vi) any amounts owing under indemnity provisions set forth in the Project Loan Documents that relate to liabilities to third parties resulting from acts or omissions of Borrower and/or from the ownership, occupancy or use of the Project, all of which obligations shall constitute recourse obligations of the Borrower.

Assignment of Authority's Rights. As security for the payment of the Bonds, the Authority in the Indenture assigns to the Trustee certain of the Authority's rights under the Loan Agreement, including the right to receive payments under the Loan Agreement (except for the right of the Authority to receive certain payments, if any, with respect to fees, expenses and indemnification under the Loan Agreement, and the Authority directs the Borrower to make the payments required under the Loan Agreement (except such payments for Authority fees, expenses and indemnification) directly to the Trustee. The Borrower assents to such assignment and agrees to make payments directly to the Trustee without defense or set-off by reason of any dispute between the Borrower and the Authority or the Trustee. By virtue of such assignment, the Trustee shall have the right to enforce the obligations of the Borrower under the Loan Agreement.

SPECIAL COVENANTS AND AGREEMENTS

Maintenance of Existence; Assignments. The Borrower agrees that during the term of the Loan Agreement it will remain in good standing and authorized to do business in the State of California and will maintain its existence as a nonprofit corporation, will not dissolve or otherwise dispose of all or substantially all of its assets and will not combine or consolidate with or merge into another entity or permit one or more other entities to consolidate with or merge into it; provided, however, that the Borrower so combine, consolidate with, or merge into another entity existing under the laws of one of the states of the United States, or permit one or more other entities to consolidate with or merge into it, or sell or otherwise transfer to another entity all or substantially all of its assets as an entirety and thereafter dissolve, provided that the surviving, resulting or transferee entity, as the case may be, (i) assumes and agrees in writing to pay and perform all of the obligations of the Borrower under the Loan Agreement, (ii) qualifies (if required under applicable law) to do business in the State of California, and (iii) will not cause a violation of any of the representations or warranties in the Loan Agreement and provided further that the Borrower shall provide prior written notice of any of the foregoing events to each Rating Agency then maintaining a rating on the Bonds and the Borrower shall confirm in writing with each such Rating Agency prior to effecting, or permitting to be effected, any of the foregoing events that the then rating on the Bonds will not be downgraded as a result of any such events.

The rights and obligations of the Borrower under the Loan Agreement may be assigned by the Borrower to any person in whole, in connection with and in proportion to, any conveyance of all or part of the Project; provided that (i) the assignee shall assume in writing the obligations of the Borrower under the Loan Agreement to the extent of the interest assigned, and a copy of such instrument of assumption shall be

delivered to the Authority and the Trustee within ten (10) days after the execution thereof; (ii) the Borrower shall remain liable for its obligations under the Loan Agreement to the extent of any interest not so assigned; (iii) the Borrower shall provide prior written notice of such assignment to any Rating Agency then maintaining a rating on the Bonds; (iv) the assignment will not cause a violation of any of the representations or warranties in the Loan Agreement; and (v) the Authority shall receive the opinion of nationally recognized bond counsel that such assignment will have no adverse material effect on the exclusion from gross income for federal income tax purposes of the interest on the Tax-Exempt Bonds and provided further that the Borrower shall provide prior written notice of any of the foregoing events to each Rating Agency then maintaining a rating on the Bonds and the Borrower shall confirm in writing with each such Rating Agency prior to effecting, or permitting to be effected, any of the foregoing events that the then rating on the Bonds will not be downgraded as a result of any such events.

Statement of Compliance; Notice of Certain Events. The Borrower will deliver to the Trustee, within 120 days after the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2003, a written statement signed by an Authorized Borrower Representative stating, as to the signer thereof, that (1) a review of the activities of the Borrower during such year and of performance under the Loan Agreement and the Deed of Trust has been made under their supervision, and (2) to the best of the knowledge of such Authorized Borrower Representative, based on such review, the Borrower has fulfilled all its obligations under such documents throughout such year, or, if there has been a default in the fulfillment of any such obligation, specifying each such default known to such Representative and the nature and status thereof.

The Borrower has covenanted to notify the Trustee in writing of the occurrence of any Event of Default under the Loan Agreement or under the Deed of Trust or any event which, with the passage of time or service of notice, or both, would constitute an Event of Default under the Loan Agreement or under the Deed of Trust, specifying the nature and period of existence of such event and the actions being taken or proposed to be taken with respect thereto. Such notice shall be given promptly, and in no event less than ten (10) Business Days after the Borrower receives notice or knowledge of the occurrence of any such event. The Borrower further agrees that it will give prompt written notice to the Trustee and the Authority if insurance proceeds or condemnation awards are received with respect to the Project and are not used to repair or replace the Project, which notice shall state the amount of such proceeds or award.

Insurance; Maintenance and Repair. The Borrower agrees to insure the Project or cause the Project to be insured during the term of the Loan Agreement as follows: (a) at least \$1,000,000 in public liability insurance; (b) insurance coverage in an amount equal to the lesser of the replacement cost of the Project (as improved) or the Outstanding principal amount of the Bonds, against loss or damage to any part of the Project buildings and improvements by fire, and lightning, with extended coverage and vandalism and malicious mischief insurance which extended coverage insurance shall, 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; (c) twelve months' rental interruption insurance; and (d) for such amounts and for such occurrences, if any, as are required under the Deed of Trust.

The Borrower agrees to name the Trustee as an additional insured (or loss payees/mortgagees) on any insurance maintained by the Borrower with respect to the Project at all times while the Loan is outstanding. The Borrower shall submit to the Trustee an annual certificate evidencing compliance with the requirements of this paragraph and the preceding paragraph within 30 days of each anniversary date of the Closing Date. The Trustee is entitled to conclusively rely on such certificate and shall be under no duty to investigate the underlying facts.

The Borrower shall not cancel any insurance policy maintained pursuant to the Loan Agreement without the prior written consent of the Trustee.

The Borrower agrees to maintain the Project, or cause the Project to be maintained, during the term of the Loan Agreement (i) in a reasonably safe condition and (ii) in good repair and in good operating condition,

ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof, so that the Project may be continually operated as a student housing facility. The Borrower agrees not to commit or suffer any waste with respect to the Project.

Financial Statements and Reports; Project Management. The Borrower shall prepare and present to the Trustee, within 90 days following the end of each Fiscal Year, commencing with the Fiscal Year ending June 30, 2004: (i) financial statements of the Borrower, which shall include all relevant aspects of the Project, audited by an independent certified accountant or firm of such accountants, and (ii) a report of an independent certified public accountant which details the projected and actual Gross Project Revenues (as defined in the Indenture), the disposition of those revenues showing the uses thereof and, in particular, the amounts used for each of the purposes described in the Loan Agreement, the current occupancy levels of the Project and any plans by the Borrower for major repair to or rehabilitation of the Project. Each report described in clause (ii) above shall contain a certification by the Borrower that it is in compliance with all of its obligations under the Loan Agreement and under the Deed of Trust, or a detailed statement as to any covenant with respect to which it is not in compliance stating the reasons therefor and the actions being taken by the Borrower to return to compliance.

The Borrower shall provide to the Trustee a preliminary annual budget 90 days prior to the beginning of the Borrower's Fiscal Year; provided that with respect to the Fiscal Year commencing July 1, 2003 such preliminary annual budget need not be provided. In addition, on or prior to the 30th day preceding each Fiscal Year, the Borrower shall prepare an annual budget (an "Operating Budget"), detailed as to line items of anticipated Gross Project Revenues, expenses related to the Project, including but not limited to Expenses of Operating and Maintaining the Project (as defined in the Indenture) (with separate line items for amounts due under ordinary and extraordinary repairs and reserve payments for the ensuing Fiscal Year and shall submit a copy of such budget to the Trustee; provided that with respect to the Fiscal Year commencing July 1, 2003 such Operating Budget shall be provided to the Trustee no later than June 30, 2003. Such Operating Budget shall show that the Project in such Fiscal Year will be operated so as to allow the Borrower to satisfy the Coverage Requirement pursuant to the Loan Agreement. The Operating Budget may be amended by Borrower from time to time, provided, however, the Borrower must, prior to undertaking any such amendment, certify to the Trustee that under the Operating Budget, as amended, the Coverage Requirement is met; and provided further that copies of any amendments shall be given the Trustee. The Trustee shall have no duty to review any financial statements, reports or budgets provided to it and may rely upon the certifications of the Borrower furnished to it hereunder.

The Borrower may manage the Project of its own accord or may engage a third-party manager. Any manager proposed by and engaged by the Borrower to manage any unit in the Project, or all of such units, shall be an entity with prior experience in managing units of a comparable quality and number in California, and which is familiar with the requirements of the Code and the Act as they apply to the Project and the Project Loan Documents. Upon a failure to maintain the Coverage Requirement, the Borrower agrees to replace the then Manager at the Trustee's request. If the Borrower fails to do so, the Trustee shall have the right (but not the obligation) to replace the Manager. The Trustee shall have the right (but not the obligation) to disapprove of any person or entity proposed as a Manager of all or any portion of the units comprising the Project, provided that the Trustee's approval may not be unreasonably withheld or delayed. At least twenty days prior to the execution of any management agreement with respect to all or any of the units in the Project, the Borrower shall submit such agreement, along with a statement of the proposed manager's qualifications, to the Trustee and the Rating Agency. The Trustee shall approve or disapprove of the proposed manager within thirty (30) days after receiving the information described in the previous sentence.

Negative Pledge. The Borrower shall not create or allow to exist any liens on any of its property, including, but not limited, to the Gross Project Revenue Fund except Permitted Encumbrances.

Dispositions of Assets.

Property Plant and Equipment (“PP&E”). The Borrower shall not sell or otherwise dispose of any PP&E unless (i) the PP&E is obsolete or worn out, or (ii) fair market value is received in return, or (iii) the market value of all PP&E disposed of in any fiscal year does not exceed five percent of the total market value of all PP&E of the Borrower.

Cash, Investments and Other Current Assets (“Liquid Assets”). The Borrower shall not sell or otherwise dispose of any Liquid Assets unless (i) fair market value is received in return, or (ii) the total market value of Liquid Assets disposed of in any fiscal year does not exceed one percent of all Liquid Assets of the Borrower.

Accounts Receivable. Notwithstanding paragraph (b) above, the Borrower shall not sell, pledge, factor or otherwise dispose of accounts receivable under any circumstances.

Indenture. The Borrower agrees to all of the terms and provisions of the Indenture and accepts each of its obligations expressed or implied thereunder. The Borrower hereby approves the initial appointment under the Indenture of the Trustee.

Use Covenant. The Borrower agrees and covenants during the term of the Loan that the Project will be used exclusively for student housing for the benefit of the District.

Deed of Trust. In order to provide additional security for the Bonds and its obligations under the Loan Agreement, the Borrower shall, concurrently with or before the Closing Date, execute and deliver the Deed of Trust. The Borrower shall comply with the provisions of the Deed of Trust. The Borrower has acknowledged that in the event of a default under the Deed of Trust which is not cured, such default will constitute a breach of this covenant and if such breach is not cured, the Loan may separately and independently be accelerated with or without an acceleration of the Bonds.

Title to the Project. On or before the Closing Date, the Borrower shall have good and marketable title in the real property comprising the Project and ownership of the improvements then comprising the Project, free and clear of any lien or encumbrance except for Permitted Encumbrances.

Design of the Project. The Borrower, or the Borrower’s predecessor (to the best of the Borrowers knowledge), has caused the Project to be designed and constructed in accordance with all the applicable federal state and local laws or resolutions (including rules and regulations) relating to zoning, building, safety and environmental quality; and the Borrower has not failed, and will not fail, to obtain and maintain in effect any licenses, permits, franchises or other governmental authorizations necessary for the operation of the Project.

Additional Debt. The Borrower shall not enter into any contract, bond or other form of debt instrument that is secured by Gross Project Revenues.

Federal Guarantee Prohibition. The Borrower shall take no action nor permit nor suffer any action to be taken if the result of the same would be to cause the Tax-Exempt Bonds to be “federally guaranteed” within the meaning of the Code.

Occupancy Agreement; Further Security for the Loan and the Bonds.

(a) The Borrower assigns to the Trustee, as additional security to the Authority for the repayment of the Loan, all of its right, title and interest in the Occupancy Agreement: provided, however, that Borrower affirms and covenants that notwithstanding such assignment it will abide by the terms and conditions of said Occupancy Agreement and take any and all actions required on its part under said Occupancy Agreement.

(b) The Borrower covenants that it shall (i) provide written notice to the District and Trustee within five (5) business days of the conclusion of the second full calendar week of each Fall and Spring semester of the District (each an "Occupancy Measurement Date") of (a) the number of beds in the Project made available for rent to College students for such semester and (b) the number of said beds that were not rented as of the Occupancy Measurement Date for the relevant semester and within (5) business days of each Occupancy Measurement Date determine if the occupancy level for the respective semester as of the Occupancy Measurement Date is below the Occupancy Target (as defined in the Occupancy Agreement) and the amount of the Occupancy Guarantee Payment (as defined in the Occupancy Agreement), if any, then due from the District under the Occupancy Agreement and provide same day notice of such determinations, and, if applicable, an invoice demonstrating the Occupancy Guarantee Payment due for such semester, to the District (such payment to be paid pursuant to the Occupancy Agreement no later than thirty (30) days from the date the aforementioned notices relating to the Occupancy Guarantee Payment and occupancy statistics are given).

(c) The Borrower, the Authority and the Trustee acknowledge and affirm that all payments made under, and all proceeds derived from the exercise of any right or remedy under, the Occupancy Agreement are to be deemed Gross Project Revenues.

(d) The Trustee shall take all necessary actions to secure timely payment and effect all rights and remedies under the Occupancy Agreement, including promptly instituting collection proceedings against the District for failure to make required payments thereunder.

Prohibited Facilities. The Borrower represents and warrants that no portion of the proceeds of the Tax-Exempt Bonds shall be used to provide any airplane, skybox or other private luxury box, health club facility, facility primarily used for gambling, or store the principal business of which is the sale of alcoholic beverages for consumption off premises, and no portion of the proceeds of the Tax-Exempt Bonds shall be used for an office unless the office is located on the premises of the facilities constituting the Project and unless not more than a de minimis amount of the functions to be performed at such office is not related to the day-to-day operations of the Project.

Operation of Business; Noncompetition with Project. The Borrower covenants to continue to operate its business in a business-like manner and to pursue all corporate opportunities to the Borrower. The Borrower further covenants that it will at no time during the term of the Loan Agreement acquire, construct, fund, invest in or in any manner support or promote any housing project within the geographical boundaries of the District or which might in any way compete for tenants with the Project, unless the Borrower shall provide prior written notice of any of the foregoing events to each Rating Agency then maintaining a rating on the Bonds and the Borrower shall confirm in writing with each such Rating Agency prior to undertaking any action in furtherance of housing projects of the nature contemplated in this sentence that the rating on the bonds then maintained by such Rating Agency will not be downgraded as a result of such action.

Operation of the Project.

General Operation. To the extent permitted by law and market conditions, the Borrower covenants to at all times fix, impose, charge and collect such rentals, rates, fees and charges for the services, privileges and facilities provided and made available by the Project and to manage, operate and maintain the Project in such a manner as to allow the Borrower to meet in a timely manner all of its financial and other duties, obligations, commitments and covenants set forth in the Loan Agreement and in the Indenture.

Compliance with Debt Service Coverage Requirements. To the extent permitted by law, Borrower covenants to establish and collect rents in connection with the Project sufficient to comply in each Fiscal Year with the Coverage Requirement for the Bonds Outstanding.

Failure of the Borrower to maintain the Coverage Requirement shall not constitute an Event of Default under the Loan Agreement if Borrower shall, subject to existing law (i) immediately engage a Financial Consultant to undertake a review of rents charged for the units in the Project, which review shall be set forth in a written report to be provided (within 30 days of delivery of the Borrower's Certificate identifying the coverage failure) to the Authority, each Rating Agency and the Trustee, for the purpose of determining such adjustments to rents as shall be necessary to thereafter generate sufficient Gross Project Revenues to allow the Borrower to satisfy the Coverage Requirement and (ii) undertake within sixty (60) days of completion of the rental review any adjustments recommended in the rental review and permitted by local, State and federal law; and if the coverage ratio does not fall below 1.00 in the then current month.

Withdrawals from the Reserve Fund. The Trustee shall notify the Borrower in writing of any withdrawals of moneys from the Reserve Fund within three (3) Business Days of such withdrawal. Within seven (7) Business Days after the Borrower receives notice of such withdrawal, the Borrower shall engage a Financial Consultant to undertake a review of rents then charged for units in the Project in order to determine such adjustments to rents as shall be necessary to thereafter generate sufficient Gross Project Revenues to allow the Borrower to (i) make payments of principal of and interest on the Bonds as due, (ii) replenish the amount or amounts withdrawn from the Reserve Fund, and (iii) make the deposits required pursuant to the Loan Agreement. The aforementioned rental review shall be set forth in a written report to be provided within 30 days of the withdrawal from the Reserve Fund to the Authority, each Rating Agency and the Trustee. The Borrower shall implement to the extent such action does not jeopardize the tax-exempt status of the Tax-Exempt Bonds, any rental adjustments suggested by the review described in the previous sentence and permitted by local, State and federal law and the Leases within sixty (60) days from the date moneys were withdrawn from the Reserve Fund for such purposes.

Continuing Disclosure.

The Borrower covenants to comply with and carry out the provisions of the Continuing Disclosure Agreement. The Borrower agrees to comply with all applicable provisions of the Rule and to assume on behalf of the Authority any and all obligations, costs, fees, or expenses arising therefrom.

Notwithstanding any other provision of the Loan Agreement, failure of the Borrower to comply with the Continuing Disclosure Agreement shall not be considered an Event of Default under the Loan Agreement; however, the Trustee, any Bondholder or beneficial owner, within the meaning of said Rule, may (and the Trustee, at the request of any underwriter subject to the requirements of the Rule or the holders of at least 25% aggregate principal amount in Outstanding Bonds, shall) take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Borrower to comply with its obligations under the Loan Agreement.

DAMAGE, DESTRUCTION AND CONDEMNATION; USE OF PROCEEDS

Obligation to Continue Payments. If prior to full payment of the Bonds (or provision for payment thereof in accordance with the provisions of the Indenture) the Project or any portion thereof is destroyed (in whole or in part) or is damaged by fire or other casualty, or title to, or the temporary use of, the Project or any portion thereof shall be taken under the exercise of the power of eminent domain by any governmental body or by any person, firm or corporation acting under governmental authority, the Borrower shall nevertheless be obligated to continue to pay the amounts specified in the Loan Agreement, to the extent not prepaid in accordance with the Loan Agreement.

Application of Net Proceeds. The Net Proceeds, if any of any insurance or condemnation awards resulting from the damage, destruction or condemnation of the Project or any portion thereof shall be applied in one or more of the following ways at the election of the Borrower, such election to be subject to the conditions set forth in the Deed of Trust if the Net Proceeds are in excess of \$500,000:

(a) The prompt repair, restoration, relocation, modification or improvement of the damaged, destroyed or condemned portion of the Project to enable such portion of the Project to accomplish at least the same function as such portion of the Project was designed to accomplish prior to such damage, or destruction, or condemnation.

(b) Prepayment of all or a portion of the Loan, subject to and in accordance with the Loan Agreement, and redemption of Bonds: provided that no part of the Net Proceeds may be applied for such purpose unless (1) the entire amount of the Loan is so prepaid and all of the outstanding Bonds are to be redeemed in accordance with the Indenture, or (2) in the event that only a portion of the Loan is so prepaid, the Borrower shall furnish to the Authority and the Trustee a certificate of the Authorized Borrower Representative acceptable to the Authority stating (i) that the property forming part of the portion of the Project that was damaged or destroyed by such casualty or was taken by such condemnation proceedings is not essential to the Borrower's use or possession of the remaining portion of the Project or (ii) that such part of the portion of the Project theretofore completed has been repaired, replaced, restored; relocated, modified or improved to enable such portion of the Project to accomplish at least the same function as such portion of the Project was designed to accomplish prior to such damage or destruction or the taking by such condemnation proceedings.

Insufficiency of Net Proceeds. If the Project or a portion thereof is to be repaired, restored, relocated, modified or improved pursuant to the Loan Agreement, and if the Net Proceeds are insufficient to pay in full the cost of such repair, restoration, relocation, modification or improvement, the Borrower will nonetheless complete the work or cause the work to be completed and will pay or cause to be paid any cost in excess of the amount of the Net Proceeds.

EVENTS OF DEFAULT AND REMEDIES

Events of Default.

Any one of the following which occurs and continues shall constitute an Event of Default: (i) the occurrence of an Event of Default described in the Loan Agreement if, as set forth in a written opinion of Bond Counsel delivered to the Trustee, any of such defaults would result in interest on the Tax-Exempt Bonds becoming includable in gross income of a holder for federal income tax purposes if the Tax-Exempt Bonds remain outstanding (an "Acceleration Default"); (ii) failure by the Borrower to pay any amounts required to be paid under the Loan Agreement at the times specified therein; (iii) failure by the Borrower to observe and perform any other covenant, condition or agreement on its part required to be observed or performed by the Loan Agreement, and which continues for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, given to the Borrower by the Authority or the Trustee, unless the Authority and the Trustee shall agree in writing to an extension of such time prior to its expiration; provided, however, that if the failure stated in the notice cannot be corrected within such period but is correctable, the Authority and the Trustee will not unreasonably withhold their consent to an extension of such time if corrective action is instituted within such period and diligently pursued until the default is corrected; (iv) the making of any covenant, representation or warranty by the Borrower in the Loan Agreement or in any document executed in connection with the Loan Agreement which is false or misleading in any material respect when made; or if an "Event of Default" under the Indenture has occurred and is continuing.

Neither the Trustee nor the Authority shall be deemed to have knowledge of any Event of Default under the Loan Agreement unless and until it shall have actual knowledge thereof or it shall have received written notice thereof.

Remedies on Default. Whenever any Event of Default shall have occurred and shall continue, to cure any such default, the Authority and the Trustee may take any one or more of the following remedial steps: (1) The Trustee, upon the occurrence of a n Acceleration Default, or upon the occurrence of any other Event of Default under the Loan Agreement, by written notice to the Borrower, shall immediately declare to be due and payable immediately the unpaid balance of the Loan. (2) The Authority and the Trustee may have access to and may inspect, examine and make copies of the books and records and any and all accounts, data and federal income tax and other tax returns of the Borrower relating to the Project. (3) The Authority or the Trustee may take whatever action at law or in equity as may be necessary or desirable to collect the payments and other amounts then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Borrower under the Loan Agreement. (4) The Trustee may institute any action or proceeding at law or in equity for the collection of any sums due and unpaid, and may prosecute any such action or proceeding to judgment or final decree, and may enforce any such judgment or final decree against the Borrower and collect in the manner provided by law the moneys adjudged or decreed to be payable.

In case the Trustee or the Authority shall have proceeded to enforce its rights under the Loan Agreement and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or the Authority, then, and in every such case, the Borrower, the Trustee and the Authority shall be restored respectively to their several positions and rights under the Loan Agreement, and all rights, remedies and powers of the Borrower, the Trustee and the Authority shall continue as though no such action had been taken.

In case proceedings shall be pending for the bankruptcy or for the reorganization of the Borrower under the federal bankruptcy laws or any other applicable law, or in case a receiver or trustee shall have been appointed for the property of the Borrower or in the case of any other similar judicial proceedings relative to the Borrower, or the creditors or property of the Borrower, then the Trustee shall be entitled and empowered, by intervention in such proceedings or otherwise, to file and prove a claim or claims for the whole amount owing and unpaid pursuant to the Loan Agreement and, in case of any judicial proceedings, to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee allowed in such judicial proceedings relative to the Borrower, its creditors or its property, and to collect and receive any moneys or other property payable or deliverable on any such claims, and to distribute such amounts as provided in the Indenture after the deduction of its charges and expenses. Any receiver, assignee or trustee in bankruptcy or reorganization is authorized to make such payments to the Trustee, and to pay to the Trustee any reasonable amount due it for compensation and expenses, including expenses and fees of counsel incurred by it up to the date of such distribution.

Agreement to Pay Attorneys' Fees and Expenses. In the event the Authority or the Trustee should employ attorneys or incur other expenses for the collection of the payments due under the Loan Agreement or the enforcement of performance or observance of any obligation or agreement on the part of the Borrower in the Loan Agreement contained, the Borrower agrees to pay to the Authority or the Trustee the reasonable fees of such attorneys and such other reasonable expenses so incurred by the Authority or the Trustee.

No Remedy Exclusive. No remedy in the Loan Agreement conferred upon or reserved to the Authority or the Trustee is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under the Loan Agreement or existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall 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. In order to entitle the Authority or the Trustee to exercise any remedy reserved to it in the Loan Agreement, it shall not be necessary to give any notice, other than such notice as may be in the Loan Agreement expressly required or required by law to be given. Such rights and remedies as are given the Authority under the Loan Agreement shall also extend to the Trustee, and the Trustee and the holders of the Bonds shall be deemed third party beneficiaries of all covenants and agreements in the Loan Agreement contained.

No Additional Waiver Implied by One Waiver. In the event any agreement or covenant contained in the Loan Agreement should be breached by the Borrower and thereafter waived by the Authority or the Trustee, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach under the Loan Agreement.

PREPAYMENT

Prepayment of Loan. The Loan shall not be prepaid except as provided in the Loan Agreement. The Borrower shall be permitted or required to prepay, or shall be deemed to have prepaid, the Loan, in whole or in part, and the principal amount thereof shall be reduced accordingly, in an amount equal to the principal amount of Bonds redeemed and on the date of such redemption, as follows:

The Borrower shall be required to prepay the Loan from the amount of any Net Proceeds of any insurance (other than proceeds from loss of rental insurance) or condemnation award which are not used to repair or replace the Project pursuant to the Loan Agreement.

The Borrower shall be required to prepay the full remaining balance of the Loan, upon the occurrence of an Acceleration Default and the acceleration of the Loan pursuant to the Loan Agreement, the acceleration of the Loan following any other Event of Default under the Loan Agreement pursuant to said the Loan Agreement.

The Borrower shall be required to prepay the Loan in whole or in part on the date necessary in order for the Bonds to be redeemed as provided in the Indenture.

Redemption of Bonds Upon Prepayment. Upon any prepayment of the Loan as provided in the Loan Agreement, the Trustee is required by the Indenture to call all or part of the Bonds for redemption in the respective amounts set forth in the applicable provision of the Indenture.

Amount of Prepayment. In the event of any prepayment pursuant to the Loan Agreement, the amount of the Loan deemed to be prepaid shall be equal to the principal amount of Bonds redeemed as described in the Loan Agreement. In the case of prepayment of the Loan in full, the Borrower shall pay to the Trustee an amount sufficient, together with other funds held by the Trustee and available for such purpose, to pay all reasonable and necessary fees and expenses of the Authority, the Trustee and any paying agent accrued and to accrue through final payment of the Bonds and all other liabilities of the Borrower accrued and to accrue under the Loan Agreement, and shall pay to the Authority any amount required by the Loan Agreement. In the case of partial prepayment of the Loan, the Borrower shall pay or cause to be paid to the Trustee an amount sufficient, together with other funds held by the Trustee and available for such purpose, to pay expenses of redemption of the Bonds to be redeemed upon such prepayment.

LIMITATION ON LIABILITY OF ISSUER; EXPENSES; INDEMNIFICATION

Limitation on Liability of Authority. The Authority shall not be obligated to pay the principal of, or premium, if any, or interest on the Bonds, except from Revenues. The Borrower acknowledges that the Authority's sole source of moneys to repay the Bonds and to pay expenses related thereto will be provided by the payments made by the Borrower pursuant to the Loan Agreement, together with other Revenues or investment income on certain funds and accounts held by the Trustee under the Indenture, and confirms that amounts available to pay all principal of, and premium, if any, and interest on the Bonds as the same shall become due (whether by maturity, redemption, acceleration or otherwise), have been calculated to be at all times sufficient for such purpose.

Any obligation or liability of the Authority created by or arising out of the Loan Agreement (including, without limitation, any liability created by or arising out of the representations, warranties or covenants set forth in the Loan Agreement or otherwise) shall not impose a debt or pecuniary liability upon the

Authority or a charge upon its general credit, but shall be payable solely out of the Revenues. Neither the issuance of the Bonds nor the delivery of the Loan Agreement shall, directly or indirectly or contingently, obligate the Authority to make any appropriation for their payment. Nothing in the Bonds or in the Indenture or the Loan Agreement or the proceedings of the Authority authorizing the Bonds or in the Act or in any other related document shall be construed to authorize the Authority to create a debt of the Authority within the meaning of any constitutional or statutory provision of the State or the United States of America. No breach of any pledge, obligation or agreement of the Authority under the Loan Agreement may impose any pecuniary liability upon the Authority or any charge upon its general credit or against its taxing power.

MISCELLANEOUS

Amendments, Changes and Modifications. Except as otherwise provided in the Loan Agreement or the Indenture, subsequent to the initial issuance of Bonds and prior to their payment in full, or provision for such payment having been made as provided in the Indenture, the Loan Agreement may be effectively amended, changed, modified, altered or terminated only by written instrument executed by the parties to the Loan Agreement.

Governing Law. The Loan Agreement shall be governed exclusively by and construed in accordance with the laws of the State of California.

Term of the Agreement. The Loan Agreement shall be in full force and effect from the date of the Loan Agreement and shall continue in effect as long as any of the Bonds are outstanding or the Trustee holds any moneys under the Indenture, whichever is later.

APPENDIX D

FORM OF BOND COUNSEL OPINION

Upon the issuance and delivery of the Bonds, Stradling Yocca Carlson & Rauth, San Francisco, California, Bond Counsel, proposes to render its final approving opinion with respect to the Bonds substantially in the following form.

May 29, 2003

California Community College Financing Authority
Sacramento, California

\$3,250,000
CALIFORNIA COMMUNITY COLLEGE FINANCING AUTHORITY
STUDENT HOUSING REVENUE BONDS
(FEATHER RIVER COMMUNITY COLLEGE PROJECT)
Series 2003A Tax-Exempt

\$165,000
CALIFORNIA COMMUNITY COLLEGE FINANCING AUTHORITY
STUDENT HOUSING REVENUE BONDS
(FEATHER RIVER COMMUNITY COLLEGE PROJECT)
Series 2003B Taxable

Ladies and Gentlemen:

We have examined a certified copy of the record of proceedings relating to the issuance by the California Community College Financing Authority (the "Authority") of \$3,250,000 aggregate principal amount of Student Housing Revenue Bonds (Feather River Community College Project) Series 2003A Tax-Exempt (the "Series A Bonds") and \$165,000 aggregate principal amount of Student Housing Revenue Bonds (Feather River Community College Project) Series 2003B Taxable (the "Series B Bonds" and together with the Series A Bonds, the "Bonds"). The Bonds are issued pursuant to the provisions of Articles 1 through 4 (commencing with Section 6500 of Chapter 5 of Division 7 of Title 1 the Government Code of the State of California (the "Act") and an indenture, dated as of May 1, 2003 (the "Indenture"), by and between the Authority and U.S. Bank National Association, as trustee (the "Trustee"). The Bonds are issued for the purpose of making a loan of the proceeds thereof to Feather River College Foundation, Inc. (the "Borrower"), pursuant to a Loan Agreement, dated as of May 1, 2003 (the "Loan Agreement"), by and between the Authority, the Trustee and the Borrower. Capitalized terms not otherwise defined herein shall have the meaning ascribed thereto in the Indenture.

In our capacity as Bond Counsel, we have examined originals or copies certified or otherwise identified to our satisfaction, of the (i) Indenture and the Loan Agreement, (ii) the Tax Certificate relating to the Series A Bonds dated May 29, 2003, (iii) the Official Statement, dated May 21, 2003 (the "Official Statement"), (iv) the Purchase Contract, dated as of May 21, 2003 (the "Purchase Contract"), by and among

the Borrower, the Authority and George K. Baum & Company (the "Underwriter"), (v) letters, certificates and opinions of counsel to the Authority, the Borrower, the Trustee and others delivered pursuant to the Purchase Contract, and (vi), such other laws, documents, certifications, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have assumed, but have not independently verified, that the signatures on all documents, letters, opinions and certificates which we have examined are genuine, that all documents submitted to us are authentic and were duly and properly executed by the parties thereto other than the Authority and that all representations made in the documents that we have reviewed are true and correct.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof we are of the opinion that:

1. The Bonds have been duly authorized, executed and issued.
2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Authority. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held by the Trustee in any fund or account established pursuant to the Indenture except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture. The Indenture also creates a valid assignment to the Trustee, for the benefit of the holders from time to time of the Bonds, of the right, title and interest of the Authority in the Loan Agreement (to the extent more particularly described in the Indenture).
3. The Bonds are valid and binding limited obligations of the Authority, payable solely from the Revenues and other assets pledged and assigned therefor under the Indenture and are not a lien or charge upon the funds or property of the Authority except to the extent of the aforementioned pledge and assignment. The Bonds shall never constitute the debt or indebtedness of the Authority within the meaning of any provision or limitation of the Constitution of the State of California, and shall not constitute nor give rise to a pecuniary liability of the Authority or a charge against its general credit. The Authority has no taxing power.
4. The Loan Agreement has been duly authorized, executed and delivered by, and constitutes the valid and binding agreement of, the Authority.
5. Under existing statutes, regulations, rulings and judicial decisions, assuming compliance by the Authority and the Borrower with certain covenants of the Indenture and the Loan Agreement and other documents pertaining to the Series A Bonds (the "Tax-Exempt Bonds") and certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the organization and operation of the Borrower, the use, expenditure and investment of Tax-Exempt Bond proceeds and the timely payment of certain investment earnings to the United States Treasury, interest on the Tax-Exempt Bonds is not includable in the gross income of the owners of the Tax-Exempt Bonds for purposes of federal income taxation. In rendering the foregoing opinion, we have relied upon the opinion of Schools Legal Service, Bakersfield, California, regarding the qualification of the Borrower as an organization described in Section 501(c)(3) of the Code. In addition, we can give no opinion or assurance about the future activities of the Borrower or about the effect of future changes in the Code, the applicable regulations, the interpretations thereof or the resulting changes in enforcement thereof by the Internal Revenue Service. Failure to comply with the covenants and requirements described above or failure of the Borrower 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 cause interest on the Tax-Exempt Bonds to be includable in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds.
6. Interest on the Tax-Exempt Bonds will not be treated as an item of tax preference in calculating alternative minimum taxable income of individuals and corporations; however, interest on the Tax-Exempt

Bonds will be included as an adjustment in the calculation of corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. We express no opinion regarding other federal income tax consequences caused by ownership of, or the receipt of interest on, the Tax-Exempt Bonds.

7. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity is to be sold to the public) and the stated redemption price at maturity with respect to such Bonds constitutes original issue discount. Original issue discount accrues under a constant yield method, and original issue discount will accrue to a Bondowner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bondowner will increase the Bondowner's basis in the applicable Bond. Original issue discount that accrues to the Bondowner 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.

8. Interest on the Bonds is exempt from State of California personal income tax.

Certain requirements and procedures contained or referred to in the Indenture or other relevant documents relating to the Bonds may be changed, and certain actions may be taken, 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 any payment under the Loan Agreement or the exclusion of interest on the Tax-Exempt Bonds from gross income of the owners of the Tax-Exempt Bonds for federal income tax purposes on and after the date on which any such change occurs or action is taken upon the advice or approval of counsel other than this firm.

The opinions expressed herein are based upon our analysis and interpretation of existing laws, regulations, rulings and judicial decisions and cover certain matters not directly addressed by such authorities. We call attention to the fact that the rights and obligations under the Indenture, the Loan Agreement and the Bonds are subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights, to the application of equitable principles if equitable remedies are sought, to the exercise of judicial discretion in appropriate cases and to limitations on legal remedies against public agencies in the State of California. We express no opinion with respect to indemnification or contribution provisions contained in the foregoing documents.

Respectfully submitted,

STRADLING YOCCA CARLSON & RAUTH

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APPENDIX E
AGREEMENT BETWEEN
FEATHER RIVER COLLEGE FOUNDATION
&
FEATHER RIVER COMMUNITY COLLEGE DISTRICT
REGARDING THE OCCUPANCY & OPERATION OF THE
“STUDENT HOUSING COMPLEX” (FEATHER RIVER A PARTMENTS)

This OCCUPANCY AGREEMENT (the "Agreement") is made by and between the Feather River Community College District, a California community college district (the "District"), and Feather River College Foundation, Inc., a California nonprofit corporation (hereinafter the "Foundation") as of May 1, 2003.

RECITALS

WHEREAS, the Foundation has among its expressed corporate purposes the purposes of raising and implementing support for special projects of Feather River College (the "College") and undertaking any activities which may be to the benefit of the College and the community within the terms and according to the laws of the State of California; and

WHEREAS, each of the Foundation and the District recognize that the supply of safe, habitable and affordable student housing within proximity to the College is currently inadequate to meet the needs of the College's student population; and

WHEREAS, the Foundation intends to acquire and operate that certain apartment complex located at 300 Golden Eagle Avenue, Quincy, California 95171 and commonly known as the Feather River Apartments (the "Student Housing Complex") for the benefit of the students of the College; and

WHEREAS, the Foundation intends to finance the costs of acquiring, improving, remodeling, renovating and/or equipping the Student Housing Complex (such actions collectively, the "Project") from the loan of the proceeds of the sale of those certain California Community College Financing Authority Student Housing Revenue Bonds (Feather River College Project) Series 2003A Tax-Exempt and Series 2003B Taxable (collectively, the "Bonds") made by the California Community College Financing Authority (the "Authority"); and

WHEREAS, to establish sufficient creditworthiness of the Bonds that will allow the Foundation to finance the Project at rates of interest that make the operation of the Project for its intended purposes economically feasible, the Foundation has proposed that the District support the occupancy of the Project and pay specified sums in the event that Project occupancy levels are deficient; and

WHEREAS, the District believes that the support of said occupancy levels in consideration for the Foundation's operation and maintenance of the Project for the benefit of the students of the College, in accordance with certain terms established by the College herein, is in the interests of the students of the College and in furtherance of the mission of the District;

AGREEMENT

NOW, THEREFORE, in consideration of the premises and covenants herein contained and for other good and valuable consideration, the parties hereto agree as follows:

Section A. Term of Agreement.

1. This Agreement may be terminated at any time upon mutual written agreement of both parties. Except as provided in Section B.7 hereof, so long as any of the Bonds are outstanding, this Agreement shall under no circumstances terminate earlier than June 30, 2030, unless prior to effecting any such termination the Foundation shall have first confirmed in writing with each rating agency then maintaining a rating with respect to the Bonds that the rating on the Bonds then maintained by each of such rating agencies will not be downgraded as a result of any such termination.

Section B. Occupancy Guarantee of the District; Agreement to Provide Student Housing.

1. The Foundation shall hold and make available for the exclusive use of the District's students the units in the Student Housing Complex during each Fall and Spring semester. Within five (5) business days of the conclusion of the second full calendar week of each Fall and Spring semester (each an "Occupancy Measurement Date"), the Foundation shall provide written notice to the District of (i) the number of beds in the Student Housing Complex made available for rent to District students for such semester and (ii) the number of said beds that were not rented as of the Occupancy Measurement Date for the relevant semester. In the event the Occupancy Target (as defined below) is not met as of each Occupancy Measurement Date, the District shall pay to the Foundation an Occupancy Guarantee Payment (as defined below) in consideration for the rental income deemed forfeited by the Foundation in each respective semester for which the percentage of occupied beds relative to the aggregate number of beds initially reserved exclusively for District students prior to the relevant Occupancy Measurement Date falls below the Occupancy Target as of the respective Occupancy Measurement Date.

2. The Occupancy Guarantee Payment shall be calculated based on the following formula: 0.9 multiplied by the sum of the total number of Student Housing Complex beds made available for rent to District Students as of each Occupancy Measurement Date (excluding beds in units reserved for Resident Assistants and other Foundation employees up to a maximum number of 5 units) less the number of beds rented as of each Occupancy Measurement Date, the sum of which is finally multiplied by the current rental rates for such beds in the relevant semester. In each case, the application of the foregoing formula shall assume a minimum of two (2) beds per bedroom.

3. The Foundation shall within (5) business days of each Occupancy Measurement Date determine if the occupancy level for the respective semester as of the Occupancy Measurement Date is below the Occupancy Target and the amount of Occupancy Guarantee Payment, if any, then due from the District under this Agreement and provide same day notice of such determinations, and, if applicable, an invoice demonstrating the Occupancy Guarantee Payment due for such semester, to the District.

4. The District shall have the right to verify the Foundation's calculations as to occupancy levels and Occupancy Guarantee Payment, to inspect the books of the Foundation with respect to occupancy levels, rental rolls and current rental rates, and to require a third-party accounting with regard to any of the foregoing if District deems there to be accounting discrepancies upon its inspection.

5. The District shall pay no later than thirty (30) days from the date the aforementioned notices and statistics relating to the Occupancy Guarantee Payment, if any, then due for such semester.

6. The Occupancy Target in each Spring and Fall semester is 90% of the total number of Student Housing Complex beds (excluding beds in units reserved for Resident Assistants and other Foundation employees up to a maximum number of 5 units and assuming a minimum of two (2) beds per bedroom).

7. Occupancy Guarantee Payment shall be payable by the District from all amounts legally available for the payment therefor; provided, however, in each semester the obligation of the District to pay Occupancy Guarantee Payment shall be subject to annual appropriations of the District. If for any fiscal year of this Agreement, the Board of Trustees of the District fails to appropriate or allocate funds for future Occupancy Guarantee Payments, the District shall have the right (but no the obligation) to terminate all obligations with respect to the appropriation for and payment of the Occupancy Guarantee Payments; provided, however, such right of termination upon failure to make annual appropriations shall apply only to the obligations respecting the appropriation for and payment of the Occupancy Guarantee Payments and not to the other obligations hereunder.

8. The District hereby covenants that during the term of this Agreement, it will take such actions as may be necessary to include estimated Occupancy Guarantee Payment for each fiscal year in its annual budgets and to make the necessary appropriations therefor. Such estimated Occupancy Guarantee Payment shall be based on the amount of Occupancy Guarantee Payment due in prior years and current information as to the availability of comparable housing relative to then current levels of demand for student housing in the area in and around Quincy, California. The District in estimating the amounts to be appropriated for each year hereby agrees to consult with the Foundation as to estimated occupancy deficiencies, rental rates and status of the local student housing market.

Section C. Agreement as to Certain Improvements.

1. The District shall pay to the Bond trustee, for application to the repair and replacement reserve fund with respect to the Bonds, an aggregate amount of \$1,000,000 from its "Special Forest Revenues" under the allocation made by the federal government pursuant to the Secure Rural Schools and Community Self-Determination Act of 2000) in the amounts and at the times set forth in Exhibit A hereto, which moneys the Foundation hereby covenant to apply to the specific purposes of accomplishing all necessary structural repairs to the Student Housing Complex's building foundations, lateral and vertical support systems and roof systems (collectively, the "Initial Rehabilitation Work", in order to improve the structural integrity and useful life of the Student Housing Complex to a 25 year useful life.

2. The District further agrees to finance directly the costs of improving the portion of the path situated on the College property from the main component of the College campus to the property line with the Student Housing Complex by installing additional safety lighting along said path and repairing and adding road base/gravel to said path.

Section D. Financial Reporting.

1. The District and Foundation hereby agree to review the operation and financial condition of Student Housing Complex on a regular basis. The Foundation shall prepare, or cause to be prepared on its behalf, a report on the operation and financial condition of the Student Housing Complex, including budgeted and actual revenues and expenditures, and said report shall be delivered to the District not less frequently than on a quarterly basis. Said report shall be prepared in accordance with customary standards and practices common to the commercial residential rental housing industry.

2. The Foundation shall prepare and present to the District, within 90 days following the end of each fiscal year, commencing with the fiscal year ending June 30, 2003: (i) financial statements of the Foundation, which shall include all relevant aspects of the Project, audited by an independent certified accountant or firm of such accountants, and (ii) an audit of an independent certified public accountant which details the projected and actual gross revenues from the Student Housing Complex, the disposition of those

revenues showing the uses thereof and, in particular, the amounts used for operation and maintenance expenses, amounts applied to the repair and replacement funds and other amounts applied in connection with the loan agreement relating to the Bonds, the current occupancy levels of the Student Housing Complex and any plans by the Foundation for major repair to or rehabilitation of the Student Housing Complex. The foregoing reporting requirements identified in (i) and (ii) may be combined into one audit.

3. The Foundation shall provide to the District a preliminary annual budget 90 days prior to the beginning of the Foundation's fiscal year; provided that with respect to the fiscal year commencing July 1, 2003 such preliminary annual budget need not be provided. In addition, on or prior to the 30th day preceding each Fiscal Year, the Foundation shall prepare an annual budget (an "Operating Budget"), detailed as to line items of anticipated gross rental revenues, expenses related to the Student Housing Complex, including but not limited to expenses of operating and maintaining the Student Housing Complex, ordinary and extraordinary repairs and reserve payments due under the loan agreement relating to the Bonds for the ensuing fiscal year and shall submit a copy of such budget to the District; provided that with respect to the fiscal year commencing June 30, 2003 such Operating Budget shall be provided no later than the date the Student Housing Complex is acquired by the Foundation. The Operating Budget may be amended by the Foundation from time to time, provided, however, the Foundation must certify to the District that under the Operating Budget, as amended, all debt service coverage requirements imposed under the loan agreement relating to the loan of the proceeds of the Bonds are met; and provided further that copies of any amendments shall be given to the District.

Section E. Agreement as to Corporate Governance With Respect to the Student Housing Complex.

1. The Foundation hereby covenants and agrees to create and maintain during the term of the Agreement a Business Management Committee of its Board of Directors and to empower said committee and its appointed representatives to make necessary operational, budgetary and staffing decisions related to the Student Housing Complex. The Foundation shall appoint four (4) members of its Board of Directors to serve on the Business Management Committee. The Foundation agrees to manage, operate, maintain and staff the Student Housing Complex under the operational direction of the Business Management Committee. The Foundation Board of Directors may provide guidance, establish goals, establish policies, and/or direct the Business Management Committee.

2. The Foundation may hire and maintain the position of a "Foundation Senior Administrator" who shall have primary responsibility for the management and operation of the Foundation's Student Housing Complex (housing), Feather River Fitness and Recreation (fitness center) and any other enterprise operations of the Foundation, and other duties and responsibilities as determined appropriate the Board or Business Management Committee of the Foundation. The Foundation Senior Administrator shall report to the Business Management Committee.

3. The Foundation agrees to hire a housing manager or a third-party property management company who shall have primary responsibility for the day-to-day management and operation of the Student Housing Complex. The Housing Manager shall report to the Foundation Senior Administrator, or in the absence of the Foundation Senior Administrator, to the Business Management Committee.

Section F. Agreement as to Management and Use of Student Housing Complex Between Semesters.

I. The Foundation shall hold and make available, for and during the period between the spring and fall semester of each year, a specified number of its Student Housing Complex units, as determined by the Business Management Committee in consultation with District staff to be that number of units which will be occupied by District students or others attending District-sponsored events, classes, sport camps or other programs during the aforementioned period. Agreement as to the number of units, the specific units to held for District-sponsored events, classes, sport camps or other programs, and the period during the summer for which such units are to be reserved shall be made no later than April 1 of each year; provided, however, in all events

priority will be given to the student housing needs of District students attending classes during the summer sessions.

2. The Foundation shall use its best efforts to rent units that are not reserved in accordance with the aforementioned agreement between the District and the Foundation as to unit reservation relating to District-sponsored events and apartments otherwise vacant or vacated during the summer to members of the public or other third-parties in order to maximize the Student Housing Complex's annual rental income (but only to the extent not inconsistent with the tax covenants made by the Foundation with respect to the use of the proceeds of the Bonds); provided, however, in all events priority will be given to the student housing needs of District students attending classes during the summer sessions.

3. Notwithstanding any of the foregoing, it shall be the affirmative obligation of the Foundation to ensure that all repairs deemed necessary to maximize occupancy of the Student Housing Complex units during the ensuing Spring semester, with respect to the winter break, and the ensuing Fall semester, with respect to Summer break, shall be conducted between semesters and in such a manner as to maximize the number of units available for rent at the beginning of each Fall and Spring semester.

4. The Foundation may manage the Student Housing Complex of its own accord or may engage a third-party manager. Any manager proposed by and engaged by the Foundation to manage any unit in the Student Housing Complex shall be an entity with prior experience in managing units of a comparable quality and number in California and shall be selected in consultation with the District. Upon a failure to maintain the debt service coverage requirement in the loan agreement relating to the Bonds, the Foundation is obligated to replace the then current manager of the Student Housing Complex at the Bond trustee's request. If the Foundation fails to do so, the Bond trustee has the right to replace said manager. At least twenty days prior to the execution of any management agreement with respect to all or any of the units in the Project, the Foundation shall submit such agreement, along with a statement of the proposed manager's qualifications, to the District and each rating agency then maintaining a rating with respect to the Bonds.

Section G. Coordination Between the District and the Foundation with Respect to the Student Housing Complex.

1. The District and the Foundation hereby affirm that it is the intent of the parties that the two institutions work in a collaborative manner to provide student housing for the students of the District and to maximize the number of units rented in the Student Housing Complex. To enable the achievement of these goals the parties agree as follows:

- (1) The District shall provide information to its students regarding the Student Housing Complex, including, but not limited to, advertising the Student Housing Complex to prospective students, advertising the Student Housing Complex in its catalog and related materials, and assist students in making arrangements to live in the Student Housing Complex in coordination with the Student Housing Complex's staff.
- (2) The Foundation shall provide an adequate number of Resident Advisors and Foundation staff in each building of the Student Housing Complex and shall consult with the District in coordinating student life related activities projects and efforts.
- (3) The College shall continue to provide information relating to the Student Housing Complex and rental applications on its website.

Section H. Business Management Committee Composition and Responsibilities.

1. The Business Management Committee shall consist of five (5) members. Four members will be appointed by the Foundation Board of Directors as follows: two (2) Committee members shall be Foundation Board of Directors members who also serve as District Board of Trustees members or who are District administrators or employees; and two (2) members shall be Foundation Board of Directors members who are not District employees, District administrators or Board of Trustee members. These four (4) members will select and appoint a fifth member of the Business Management Committee. This fifth member shall be a local community member and who shall not be a District employee, District administrator, District Board of Trustees member or a member of the Foundation's Board of Directors, or other officer of either the District or the Foundation.

Three members of the Business Management Committee, constituted of at least one member who is also a member of the District Board of Trustees, a District administrator or a District employee and one member who is not a member of the District Board of Trustees or a District administrator or a District employee, shall constitute a quorum of the Business Management Committee.

2. Decisions of the Business Management Committee shall be made by consensus, or, when consensus cannot be reached, by majority vote.

3. The Business Management Committee will meet quarterly at a minimum and more frequently as needed.

4. The Business Management Committee shall direct and monitor the Student Housing Complex's operation, staffing, rental structure, revenue and expense budget and capital expenditures.

5. The Business Management Committee will determine the District's Occupancy Guarantee Payment obligation for vacant apartments, as described in Section B of this Agreement.

6. The Business Management Committee will direct the Senior Administrator, and in the absence of the Senior Administrator, the Student Housing Complex housing manager.

7. The Business Management Committee shall annually establish the upcoming fiscal year's operating budget, staffing levels and rental rates for the Student Housing Complex as described in Section B3. hereof.

8. The process for such decisions shall include:

- (1) A review of current and prior year operating costs
- (2) A review of current and prior year staffing levels
- (3) A review of current and prior year's student needs and activities
- (4) A review of needed capital repairs and improvements.
- (5) The debt service coverage ratio and the maintenance of any other covenants established under the loan agreement relating to the loan of the proceeds of the Bonds.

9. The principles that shall be used to reach operating budget, staffing and rental rate decisions by the Business Management Committee shall include:

- (1) Providing affordable, safe and clean housing to students
- (2) The fiscal viability of the Student Housing Complex
- (3) Establishing a revenue target for the upcoming fiscal year of at least 1.20x of annual debt coverage due under the loan agreement relating the loan of the proceeds of the Bonds.
- (4) To the extent consistent with the loan agreement relating to the loan of the proceeds of the Bonds, net revenues in any fiscal year shall first be used to perform additional maintenance and improvements on the facilities in order to maintain their functionality and habitability (above and beyond the original facility repairs contemplated in the Initial Rehabilitation Work), secondly to prepay the bond indebtedness, and thirdly, to reduce the housing rental rates charged to student renters or for other direct student needs. The Business Management Committee shall make a specific determination on the use of these excess revenues. Additionally, any such revenues shall be considered during the process of establishing future rental rates. This third priority is established in recognition of the fact that the income for the Student Housing Complex comes directly from student rents and that excess revenues should directly benefit students.
- (5) The debt service coverage ratio and the maintenance of any other covenants established under the loan agreement relating to the loan of the proceeds of the Bonds.

Section I. Agreement as to Understanding of Certain Provisions of California Law.

1. The District and the Foundation each affirm their respective knowledge and understanding of the requirements of California Labor Code Sections 1720 et seq. and 1770 et seq., as well as California Code of Regulations, Title 8, Section 16000 et seq. ("Prevailing Wage Laws"), relating, *inter alia*, to the payment of prevailing wage rates on certain "public works."

2. The District and the Foundation each understand that the payment of the Special Forest Revenues to be made hereunder may constitute "public funds" as that term is used in Labor Code Section 1720(a) so as to bring the Initial Rehabilitation Work on the Student Housing Complex to be performed by the Foundation within the definition of "public works" as that term is used in the Prevailing Wage Laws. The Foundation hereby covenants that the Initial Rehabilitation Work on the Student Housing Complex financed by the Special Forest Revenues provided hereunder will be performed in accordance with Prevailing Wage Laws

3. The District and the Foundation each understand that neither the payment of the Special Forest Revenues to be made hereunder nor any other provision of this Agreement operates so as bring the Initial Rehabilitation Work on the Student Housing Complex to be performed by Foundation within the definition of "public works" for any purpose or context other than the Prevailing Wage Laws.

4. The District and the Foundation each understand that neither any payment of Occupancy Guarantee Payment nor any payment made hereunder (other than those identified in the subsection 2. of this Section I), operates so as bring any activities of the Foundation with respect to the Student Housing Complex within the definition of "public works" as that term is used in the Prevailing Wage Laws or any other laws.

Section J. Miscellaneous.

1. **Indemnification.** The Foundation and the District each agree to indemnify and hold the other party and its officers, employees, and agents harmless from any and all expense and liability for damage, actual or alleged, to persons or property arising out of this agreement which arise out of or result from negligent acts or omissions or willful misconduct of the indemnifying party or its officers, employees, or agents.

2. **Recognition of Legally Distinct Entities.** The District and Foundation agree that the District, its Board of Trustee members, officers, agents and employees, in the conjunction with this Agreement, shall act in an independent capacity and not as officers, agents or employees of Foundation and that Foundation, its Board of Directors members, officers, agents and employees, in conjunction with this Agreement, shall act in an independent capacity and not as officers, agents and employees of the District.

3. **Insurance.** The Foundation and the District shall each name the other party as an "additional insured" on their respective liability insurance policies.

4. **Amendment, Changes and Modifications.** This Agreement may be effectively amended, changed, modified, altered or terminated only by written instrument executed by the parties thereto; provided, however, that while any Bonds are outstanding no material terms of this agreement may be amended, changed or modified unless, prior to such amendment, change or modification the Foundation shall have first confirmed in writing with each rating agency then providing a rating with respect to the Bonds that the rating on the Bonds then maintained by each of such rating agencies will not be downgraded as a result of any such amendment, change or modification to this Agreement.

5. **Assignment.** The District hereby assents to the assignment by the Foundation of all of its rights and remedies hereunder to the Bond trustee (and any successors or assigns thereof in such capacity), as security for repayment of the Bonds. This Agreement may not otherwise be assigned without the prior written consent of the parties hereto.

6. **Governing Law; Interpretation.** This Agreement shall be construed and enforced in accordance with the laws of the State of California. Every provision of law and clause required by law to be inserted in this contract shall be deemed to be inserted, and this contract shall be read and enforced as though it were included, and if through mistake or otherwise any provision is not inserted or is not correctly inserted, upon application of either party the contract shall be amended to make the insertion or correction. All references to statutes and regulations shall include all amendments, replacements, and enactments on the subject which are in effect as of the date of this contract, and any later changes which do not materially and substantially alter the positions of the parties.

7. **Severability.** If a court of competent jurisdiction holds any clause to be invalid or unenforceable in whole or in part for any reason, the validity and enforceability of the remaining clauses, or portions of them, shall not be affected unless an essential purpose of this Agreement would be defeated by loss of the invalid or unenforceable provision.

8. **Execution in Several Counterparts.** This Agreement may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts shall together constitute but one and the same instrument.

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IN WITNESS WHEREOF, the District and the Foundation has each caused this OCCUPANCY & OPERATION AGREEMENT to be executed by their respective duly authorized representatives, all as of the date first above written.

FEATHER RIVER COLLEGE FOUNDATION, INC.

By _____
[title]

**FEATHER RIVER COMMUNITY COLLEGE
DISTRICT**

By _____
[title]

EXHIBIT A

Schedule of Special Forest Revenues Payments

Payment Date	Payment Amount
7/1/03 (for fiscal year 03-04)	\$250,000
7/1/04 (for fiscal year 04-05)	250,000
7/1/05 (for fiscal year 05-06)	250,000
7/1/06 (for fiscal year 06-07)	250,000

APPENDIX F

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by the Feather River College Foundation, Inc. (the "Borrower") and U.S. Bank National Association, as trustee (the "Trustee") and as Dissemination Agent (as defined herein) in connection with the issuance of \$3,250,000 California Community College Financing Authority Student Housing Revenue Bonds (Feather River Community College District Project), Series 2003A Tax-Exempt (the "Series A Bonds"), \$165,000 California Community College Financing Authority Student Housing Revenue Bonds (Feather River Community College District Project), Series 2003B Taxable (the "Series B Bonds", and together with the Series A Bonds the "Bonds"). The Bonds are being issued pursuant to an Indenture dated as of May 1, 2003 between the California Community College Financing Authority and the Trustee (the "Indenture"). The Borrower, Dissemination Agent and the Trustee covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Borrower, Dissemination Agent and the Trustee for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5).

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

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

"Beneficial Owner" shall mean any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

"Disclosure Representative" shall mean the President of the Borrower or his or her designee, or such other officer or employee as the Borrower shall designate in writing to the Dissemination Agent and the Trustee from time to time.

"Dissemination Agent" shall mean U.S. Bank National Association, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the Borrower and which has filed with the Trustee a written acceptance of such designation.

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

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

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

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

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“State” shall mean the State of California.

“State Repository” shall mean any public or private repository or entity designated by the State as the state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission.

SECTION 3. Provision of Annual Reports.

(a) The Borrower shall, or shall cause the Dissemination Agent to, not later than six months after the end of the Borrower’s fiscal year (presently June 30), commencing with the report for the 2001-2003 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement; provided that the audited financial statements of the Borrower may be submitted separately from the balance of the Annual Report and later than the date required above for the filing of the Annual Report if they are not available by that date. If the Borrower’s fiscal year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(f).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to Repositories, the Borrower shall provide the Annual Report to the Dissemination Agent and the Trustee (if the Trustee is not the Dissemination Agent). The Borrower shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and Trustee may conclusively rely upon such certification of the Borrower and shall have no duty or obligation to review such Annual Report. If by such date, the Trustee has not received a copy of the Annual Report, the Trustee shall contact the Borrower and the Dissemination Agent to determine if the Borrower is in compliance with the first sentence of this subsection (b).

(c) If the Trustee is unable to verify that an Annual Report has been provided to Repositories by the date required in subsection (a), the Trustee shall send a notice to each Repository in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and the State Repository, if any; and

(ii) if information is available to the Dissemination Agent, file a report with the Borrower and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

SECTION 4. Content of Annual Reports. The Annual Report shall contain or include by reference the following:

(a) **Financial Statements.** The audited financial statements of the Borrower for the most recently available fiscal year, prepared in accordance with generally accepted accounting principles as promulgated to apply to financial audits contained in Generally Accepted Accounting Principles, issued by the Comptroller General of the United States. If the Borrower’s audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a), the Annual Report shall contain unaudited financial statements, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) **Student Enrollment.** Total student enrollment and full-time equivalent student enrollment at the College for the Fall Term of the current fiscal year.

(c) **Projected Operating Budget.** A projected operating budget for the College for the then current fiscal year.

(d) **Occupancy Statistics.** A description of the occupancy in the Project and the gross rental income for the most recent month available preceding the filing of the Annual Report.

(e) **Coverage Requirement.** A calculation of the Coverage Ratio for the Project for the prior fiscal year.

(f) **Reserve Fund, Surplus Fund and Repair and Replacement Fund.** A statement of the balance on deposit in the Reserve Fund and in the Repair and Replacement Fund as of the most recent date for which such information is available preceding the filing of the Annual Report, including a summary of withdrawals from each such fund, the use to which such withdrawals were put and the amount of Bonds to be called from Surplus Fund moneys.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Borrower or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Borrower shall clearly identify each such other document so included by reference.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the Borrower shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. modifications to rights of Bondholders;
4. optional, contingent or unscheduled bond calls;
5. defeasances;
6. rating changes;
7. adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;
8. unscheduled draws on the debt service reserves reflecting financial difficulties;
9. unscheduled draws on credit enhancements reflecting financial difficulties;
10. substitution of credit or liquidity providers, or their failure to perform;
11. release, substitution or sale of property securing repayment of the Bonds.

(b) The Trustee shall, within one (1) Business Day of obtaining actual knowledge of the occurrence of any of the Listed Events or as soon as reasonably practicable thereafter, contact the Disclosure Representative, inform such person of the event, and request that the Borrower promptly notify the Dissemination Agent in writing whether or not to report the event pursuant to subsection (f), and promptly direct the Trustee whether or not to report such event to the Bondholders. In the absence of such direction, the Trustee shall not report such event unless otherwise required to be reported by the Trustee to the Bondholders under the Indenture. The Trustee may conclusively rely upon such direction (or lack thereof). For purposes of this Disclosure Agreement, "actual knowledge" of the occurrence of such Listed Events shall mean actual knowledge by the officer at the corporate trust office of the Trustee with regular responsibility for the administration of matters related to the Indenture. The Trustee shall have no responsibility to determine the materiality of any of the Listed Events.

(c) Whenever the Borrower obtains knowledge of the occurrence of a Listed Event, whether because of a notice from the Trustee pursuant to subsection (b) or otherwise, the Borrower shall as soon as possible determine if such event would be material under applicable federal securities laws.

(d) If the Borrower has determined that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the Borrower shall promptly notify the Dissemination Agent in writing. Such notice shall instruct the Dissemination Agent to report the occurrence pursuant to subsection (f).

(e) If in response to a request under subsection (b), the Borrower determines that the Listed Event would not be material under applicable federal securities laws, the Borrower shall so notify the Dissemination Agent in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (f).

(f) If the Dissemination Agent has been instructed by the Borrower to report the occurrence of a Listed Event, the Dissemination Agent shall file a notice of such occurrence with the Repositories and any State Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(4) and (5) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to Holders of affected Bonds pursuant to the Indenture.

SECTION 6. Termination of Reporting Obligation. The Borrower's obligations under this Disclosure Agreement shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Borrower shall give notice of such termination in the same manner as for a Listed Event under Section 5(f).

SECTION 7. Dissemination Agent. The Borrower may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the Borrower pursuant to this Disclosure Agreement. The Dissemination Agent may resign by providing thirty days written notice to the Borrower and the Trustee. The Dissemination Agent shall have no duty to prepare any information report nor shall the Dissemination Agent be responsible for filing any report not provided to it by the Borrower in a timely manner and in a form suitable for filing.

SECTION 8. Amendment: Waiver. Notwithstanding any other provision of this Disclosure Agreement, the Borrower and the Trustee may amend this Disclosure Agreement (and the Trustee and Dissemination Agent shall agree to any amendment so requested by the Borrower provided, neither the Trustee nor the Dissemination Agent shall be obligated to enter into any such amendment that modifies or increases its duties or obligations hereunder), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the original issuance of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Holders of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Holders or Beneficial Owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Borrower shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or, in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Borrower. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(f), and (ii) the Annual Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles.

SECTION 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Borrower chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Borrower shall have no obligation under this Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the Borrower or the Trustee to comply with any provision of this Disclosure Agreement, the Trustee, at the written request of any Participating Underwriter or the Holders of at least 25% aggregate principal amount of Outstanding Bonds, shall but only to the extent funds in an amount satisfactory to the Trustee have been provided to it or it has been otherwise indemnified to its satisfaction from any cost, liability, expense or additional charges and fees of the Trustee whatsoever, including, without limitation, fees and expenses of its attorneys, or any Holder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower or Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture, and the sole remedy under this Disclosure Agreement in the event of any failure of the Borrower or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 11. Duties; Immunities and Liabilities of Trustee and Dissemination Agent. Article 11 of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture and the Trustee and Dissemination Agent shall be entitled to the protections, limitations from liability and indemnities afforded the Trustee thereunder. The Dissemination Agent and the Trustee shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Borrower agrees to indemnify and save the Dissemination Agent and the Trustee, their

officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's gross negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Borrower for its services provided hereunder in accordance with its schedule of fees as amended from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. The Dissemination Agent and the Trustee shall have no duty or obligation to review any information provided to them hereunder and shall not be deemed to be acting in any fiduciary capacity for the Borrower, the Bondholders, or any other party. The obligations of the Borrower under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Agreement may be given as follows:

To the Borrower: Feather River College Foundation, Inc.
570 Golden Eagle Avenue
Quincy, CA 95971

**To the Trustee or
the Dissemination
Agent:** U.S. Bank National Association
550 S. Hope Street, Suite 500
Los Angeles, California 90071
Attention: Corporate Trust Services

Any person may, by written notice to the other persons listed above, designate a different address or telephone number(s) to which subsequent notices or communications should be sent.

SECTION 13. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Borrower, the Trustee, the Dissemination Agent, the Participating Underwriters and Holders and Beneficial Owners from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Dated as of: May I, 2003

FEATHER RIVER COLLEGE FOUNDATION, INC.

By _____
Authorized Officer

Dated as of: May I, 2003

U.S. BANK NATIONAL ASSOCIATION, as
Dissemination Agent

By _____
Authorized Officer

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Borrower: Feather River College Foundation, Inc.

Name of Bond Issue: California Community College Financing Authority Student Housing Revenue Bonds (Feather River Community College District Project), Series 2003A Tax-Exempt, and California Community College Financing Authority Student Housing Revenue Bonds (Feather River Community College District Project), Series 2003B Taxable

Date of Issuance: May 29, 2003

NOTICE IS HEREBY GIVEN that the Feather River College Foundation, Inc. has not provided an Annual Report with respect to the above-named Bonds as required by Section 5.20 of the Indenture dated May 1, 2003 between the Borrower and U.S. Bank National Association. **[The Borrower anticipates that the Annual Report will be filed by _____.]**

Dated: _____

**Secretary of Feather River College Foundation, Inc.,
on behalf of Borrower**

cc: Borrower

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APPENDIX G

BOOK-ENTRY SYSTEM

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM DTC, BUT NEITHER THE AUTHORITY NOR THE BORROWER TAKE ANY RESPONSIBILITY FOR THE ACCURACY THEREOF.

The Bonds initially will be delivered in the form of fully registered, book-entry only bonds. Upon initial delivery, the Bonds will be registered in the registry books kept by the Trustee, as bond registrar, in the name of Cede & Co, as nominee for The Depository Trust Company ("*DTC*"), New York, New York, which will act as the initial securities depository for the Bonds (the "*Bond Depository*") under a book-entry only system. Purchasers of Bonds (the "*Beneficial Owners*") will not receive certificates representing their interest in the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form in Authorized Denominations by credit to participating broker-dealers and other institutions on the books of DTC as described herein. Payments of principal of and interest on the Bonds will be made by the Trustee directly to DTC as the registered Owner thereof. Disbursement of such payments to the DTC Participants (as hereinafter defined) is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants (as hereinafter defined), as more fully described herein. Any purchaser of beneficial interests in the Bonds must maintain an account with a broker or dealer who is, or acts through, a DTC Participant to receive payment of the principal of and interest on such Bonds.

DTC is a limited-purpose trust company organized under the laws of the State of New York, a "banking organization" within the meaning of 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, as amended. DTC holds securities that its participants (the "*DTC Participants*") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others, such as banks, brokers, dealers, and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "*Indirect Participants*"). The rules applicable to DTC and its Direct Participants are on file with the Securities and Exchange Commission (the "SEC").

Purchases of Bonds under the DTC system must be made by or through DTC Participants which will receive a credit balance for the Bonds in the records of DTC. The ownership interest of each Beneficial Owner is in turn to be recorded in the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive a written confirmation of their purchase providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participants and Indirect Participants through which the Beneficial Owner entered the transaction. Transfers of ownership interest in the Bonds will be accomplished by entries made on the books of DTC Participants and Indirect Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interest in the Bonds, except in the event the use of the book-entry system for the Bonds is discontinued.

SO LONG AS CEDE & CO., AS THE NOMINEE FOR DTC, IS THE REGISTERED OWNER OF THE BONDS, THE AUTHORITY AND THE TRUSTEE WILL TREAT CEDE & CO. AS THE ONLY REGISTERED OWNER OF THE BONDS FOR ALL PURPOSES UNDER THE INDENTURE, INCLUDING RECEIPT OF ALL PRINCIPAL OF AND INTEREST ON THE BONDS, RECEIPT OF NOTICES, AND VOTING.

To facilitate subsequent transfers, all Bonds deposited by DTC Participants and Indirect Participants are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the DTC Participants in whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants 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 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.

Redemption notices will be sent to Cede & Co. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in the Bonds being redeemed.

Neither DTC nor Cede & Co., will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Authority as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Bonds are credited on the record date (identified in the listing attached to the omnibus proxy).

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit DTC Participants' accounts on the payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the payment date. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now 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 DTC Participant or Indirect Participant and not of DTC, the Trustee, as paying agent, or the Authority, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal and interest to DTC is the responsibility of the Trustee, as paying agent, disbursement of such payments to DTC Participants will be the responsibility of DTC, and the disbursement of such payments to the Beneficial Owners will be the responsibility of the DTC Participants and the Indirect Participants.

The Trustee will pay principal of and interest on the Bonds to or upon the order of the respective Owners, as shown on the registration books kept by the Trustee, as bond registrar, or upon their respective attorneys duly authorized in writing, as provided in the Indenture, and all such payments will be valid and effective to fully satisfy the Authority's obligations with respect to the payment of principal and interest on the Bonds to the extent of the sum or sums so paid. Upon delivery by the nominee of DTC to the Trustee of written notice to the effect that DTC has determined to substitute a new nominee in place of the existing nominee, and subject to the provisions of the Indenture with respect to record dates, the word "Cede & Co." in the Indenture will refer to such new nominee of DTC.

In the event the Authority or the Trustee receives written notice from DTC to the effect that DTC is unable or unwilling to discharge its responsibilities, and the Authority is unable to find a substitute depository, in the opinion of the Authority, willing and able to undertake the functions of the Bond Depository upon reasonable and customary terms, then the Bonds will no longer be restricted to being registered in the

registration books of the Authority kept by the Trustee, as bond registrar, in the name of the nominee of DTC or DTC, but may be registered in whatever name or names the Beneficial Owners (as certified by DTC) transferring or exchanging the Bonds will designate, in accordance with the provisions of the Indenture.

In the event the Authority determines that it is in the best interests of the Beneficial Owners of the Bonds that they be able to obtain bond certificates, the Authority may notify DTC and the Trustee, whereupon DTC will notify the DTC Participants and Indirect Participants of the availability through the nominee or DTC of bond certificates. In such event, the Trustee will issue, transfer, and exchange Bond certificates as requested by DTC and any other Bondowners in appropriate amounts, and whenever the Bond Depository requests the Authority and the Trustee to do so, the Authority and the Trustee will cooperate with DTC by taking appropriate action after reasonable notice (i) to make available one or more separate certificates evidencing the Bonds to any nominee or DTC Participant having Bonds credited to its account or (ii) to arrange for another securities depository to maintain custody of certificates evidencing the Bonds.

Notwithstanding any other provision described herein or contained in the Indenture to the contrary, so long as any Bond is registered in the name of the nominee of DTC, all payments with respect to the principal of and interest on such Bond will be made and given, respectively, to the nominee or DTC in the manner provided in the Blanket Letter of Representation entered into between DTC and the Authority.

In connection with any notice or communication to be provided to Bondowners pursuant to the Indenture by the Authority or the Trustee with respect to any consent or other action to be taken by Bondowners, the Authority, or the Trustee, as the case may be, will establish a record date for such consent or other action and give the nominee or DTC notice of such record date not less than fifteen (15) calendar days in advance of such record date to the extent possible.

NEITHER THE AUTHORITY, THE BORROWER, NOR THE TRUSTEE HAS ANY RESPONSIBILITY OR OBLIGATIONS TO THE DTC PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (B) THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL OF AND INTEREST ON THE BONDS; (C) THE DELIVERY OR TIMELINESS OF DELIVERY BY DTC OR ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO BONDOWNERS; (D) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENTS IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (E) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC, OR ITS NOMINEE, CEDE & CO., AS REGISTERED BONDOWNER.

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