NEW ISSUE—BOOK-ENTRY ONLY

RATING: Standard & Poor's: "A+"
(See "RATING" herein.)

In the opinion of Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, under existing statutes, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest (and original issue discount) on the 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. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income tax. See "TAX MATTERS."

$8,255,000
CALIFORNIA COMMUNITY COLLEGE FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2010B
for
MIRACOSTA COMMUNITY COLLEGE DISTRICT, PALOMAR COMMUNITY COLLEGE DISTRICT, and SOUTHWESTERN COMMUNITY COLLEGE DISTRICT

Dated: Date of Delivery **Due: October 1, as shown on inside front cover**

This cover page contains certain information for general reference only. It is not intended to be a summary of the security or terms of this issue. Investors are advised to read the entire Official Statement to obtain information essential to the making of an informed investment decision. Capitalized terms used on this cover page and not otherwise defined shall have the meanings set forth herein.

The California Community College Financing Authority Lease Revenue Refunding Bonds, Series 2010B for MiraCosta Community College District, Palomar Community College District and Southwestern Community College District (the "Bonds") will be issued and secured pursuant to a Trust Indenture, dated as of October 1, 2010, between the California Community College Financing Authority (the "Authority") and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Bonds will mature in the years and amounts set forth on the inside cover hereof. Interest on the Bonds will be payable semiannually on April 1 and October 1 of each year, commencing April 1, 2011 (each, an "Interest Payment Date"). The Bonds will be issued in denominations of $5,000 or any integral multiple thereof.

The Bonds are being issued in fully registered form and, when issued, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Bonds. Individual purchases of the Bonds may be made in book-entry form only. Purchasers will not receive certificates representing their interest in the Bonds purchased. Payments of principal of, premium, if any, and interest on the Bonds will be payable by the Trustee to DTC, which is obligated in turn to remit such principal, premium, if any, and interest to the DTC Participants for subsequent disbursement to the Beneficial Owners of the Bonds, as more fully described herein.

The Bonds are subject to extraordinary redemption prior to maturity as described herein. The Bonds are not subject to optional redemption prior to their stated maturity dates.

The payment of principal of and interest on the Bonds is secured by a pledge of Revenues, consisting of Lease Payments to be paid by the participating community college districts identified herein (each, a "District") to the Authority pursuant to separate Lease/Purchase Agreements, dated as of October 1, 2010 (each, a "Lease"), by and between the Authority and each District, and by moneys in the funds and accounts held by the Trustee under the Indenture. **Each District is only obligated to pay Lease Payments and to satisfy other obligations arising under such District's particular Lease. The Districts are not obligated to make up for any deficiency in the Lease Payments of the other Districts.**

The Bonds are being issued to provide funds to: (a) refinance certain public capital improvements for each of the Districts; (b) fund debt service reserve accounts for each District; and (c) pay the costs of issuance of the Bonds.

THE BONDS ARE LIMITED OBLIGATIONS 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 OF ITS INCOME OR RECEIPTS, EXCEPT THE REVENUES OF THE AUTHORITY AS DESCRIBED HEREIN. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE INTEREST THEREON, EXCEPT FROM REVENUES OF THE AUTHORITY AS DESCRIBED HEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS. NEITHER THE MEMBERS OF THE AUTHORITY NOR ANY PERSON EXECUTING THE BONDS SHALL BE LIABLE PERSONALLY ON THE BONDS OR BE SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE ISSUANCE OF THE BONDS.

MATURITY SCHEDULE
(see inside front cover)

The Bonds will be offered when, as, and if issued and received by the Underwriter, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel and Disclosure Counsel. Certain legal matters will be passed upon for the Authority and the Districts by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California and for the Underwriter by Fulbright & Jaworski, L.L.P., Los Angeles, California. It is anticipated that the Bonds in book-entry form only will be available for delivery through the DTC book-entry system in New York, New York, on or about October 1, 2010.

RBC CAPITAL MARKETS

Dated: September 16, 2010

MATURITY SCHEDULE

$8,255,000
CALIFORNIA COMMUNITY COLLEGE FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2010B
for
MIRACOSTA COMMUNITY COLLEGE DISTRICT,
PALOMAR COMMUNITY COLLEGE DISTRICT, and
SOUTHWESTERN COMMUNITY COLLEGE DISTRICT

$8,255,000 Serial Bonds

Maturity (October 1)	Principal Amount	Interest Rate	Yield	CUSIP[(1)]
2011	$785,000.00	3.000%	0.750%	13012EE79
2012	815,000.00	3.000	1.000	13012EE87
2013	840,000.00	3.000	1.210	13012EE95
2014	865,000.00	3.000	1.550	13012EF29
2015	895,000.00	4.000	1.920	13012EF37
2016	925,000.00	3.000	2.270	13012EF45
2017	950,000.00	3.000	2.610	13012EF52
2018	980,000.00	3.000	2.900	13012EF60
2019	605,000.00	3.000	3.160	13012EF78
2020	105,000.00	4.000	3.390	13012EF86
2021	115,000.00	3.500	3.620	13012EF94
2022	115,000.00	3.625	3.790	13012EG28
2023	260,000.00	3.750	3.920	13012EG36

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. The CUSIP data herein is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the Underwriter nor any of the Districts are responsible for the selection or correctness of the CUSIP numbers set forth herein.

CALIFORNIA COMMUNITY COLLEGE FINANCING AUTHORITY

Scott Lay, *Executive Director, Treasurer/Auditor, and Board Member*
Kimi Shigetani, *Secretary and Board Member*
Doug Brinkley, *Board Member*
Dr. Bonnie Ann Dowd, *Board Member*
Andrew Suleski, *Board Member*

PROGRAM SPONSOR

Community College League of California
Sacramento, California

BOND COUNSEL AND DISCLOSURE COUNSEL

Stradling Yocca Carlson & Rauth,
a Professional Corporation
San Francisco, California

UNDERWRITER

RBC Capital Markets Corporation
Los Angeles, California

TRUSTEE

The Bank of New York Mellon Trust Company, N.A.
Los Angeles, California

No dealer, broker, salesperson or other person has been authorized by the Authority or the Underwriter to give any information or to make any representations other than those contained herein and, if given or made, such other information or representations must not be relied upon as having been authorized by the Authority 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 a person in any jurisdiction in which it is unlawful for such person to make an offer, solicitation or sale.

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

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

> "The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, their 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 the completeness of such information."

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 affairs of the Authority since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND DEALER BANKS AND BANKS ACTING AS AGENT AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE INSIDE COVER PAGE HEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

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.

Each District maintains a website. However, the information presented therein is not part of this Official Statement and should not be relied upon in making an investment decision with respect to the Bonds.

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OFFICIAL STATEMENT

$8,255,000
CALIFORNIA COMMUNITY COLLEGE FINANCING AUTHORITY
LEASE REVENUE REFUNDING BONDS, SERIES 2010B
for
MIRACOSTA COMMUNITY COLLEGE DISTRICT
PALOMAR COMMUNITY COLLEGE DISTRICT
SOUTHWESTERN COMMUNITY COLLEGE DISTRICT

INTRODUCTION

This Introduction is qualified in its entirety by reference to the more detailed information included and referred to elsewhere in this Official Statement. The offering of the Bonds (defined herein) to potential investors is made only by means of the entire Official Statement. Terms used in this Official Statement and not otherwise defined herein shall have the respective meanings set forth in "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions."

This Official Statement, which includes the cover page and appendices hereto, sets forth certain information concerning the issuance and sale by the California Community College Financing Authority (the "Authority") of its Lease Revenue Refunding Bonds, Series 2010B for MiraCosta Community College District, Palomar Community College District, Southwestern Community College District in an aggregate principal amount of $8,255,000 (the "Bonds"). The Bonds are being issued pursuant to a Trust Indenture, dated as of October 1, 2010 (the "Indenture"), by and between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"), and pursuant to the Constitution and the laws of the State of California (the "State"), including the Marks-Roos Local Bond Pooling Act of 1985, consisting of Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of California (commencing with Section 6584) (the "Act").

Purpose

The Bonds are being issued to provide funds to: (a) refinance the acquisition and/or construction of certain public capital improvements as defined in Section 6585(g) of the Act for each of the participating community college districts described herein (collectively, the "Districts"), (b) fund debt service reserve accounts for each of the Districts; and (c) pay the costs of issuing the Bonds. See "THE PROJECTS AND REFUNDING PLAN."

The Authority

The Authority is a joint exercise of powers authority organized and operating pursuant to Article 1 (commencing with Section 6500) of Chapter 5 of Division 7 of Title 1 of the Government Code of California. The Authority is composed of community college districts pursuant to a joint exercise of powers agreement dated as of May 18, 1995, as amended from time to time to the date hereof. The Authority was established under the sponsorship of the Community College League of California to facilitate capital facility financings by California community college districts. See "THE AUTHORITY."

The Participating Districts

MiraCosta. MiraCosta Community College District ("MiraCosta") was established in 1934 and serves an area of about 15 square miles in northern San Diego County (the "County"). MiraCosta includes the cities of Carlsbad, Del Mar, Encinitas, Oceanside and Solana Beach, as well as adjacent unincorporated areas of the County. The District operates three campuses; the main campus, MiraCosta College, is located on a 121-acre site in the city of Oceanside. The District also operates the 42-acre San Elijo campus in the city of Cardiff and an 7.6 acre Community Learning Center in Oceanside.

MiraCosta has an projected enrollment of 10,207 full-time equivalent students for Fiscal Year 2010-11. For additional information relating to MiraCosta, see "Appendix A – FINANCIAL AND DEMOGRAPHIC INFORMATION FOR MIRACOSTA COMMUNITY COLLEGE DISTRICT."

Palomar. Palomar Community College District ("Palomar") was founded in 1946. Palomar's 200-acre San Marcos campus, its education center located in the City of Escondido, and five regional outreach sites currently serving an area of 2,555 square miles in north San Diego County. The five outreach sites are located in the communities of Camp Pendleton, Fallbrook, Mt. Carmel, Pauma Valley, and Ramona.

Palomar has an projected enrollment of 21,200 full-time equivalent students for Fiscal Year 2010-11. For additional information relating to Palomar, see "Appendix C – FINANCIAL AND DEMOGRAPHIC INFORMATION FOR PALOMAR COMMUNITY COLLEGE DISTRICT."

Southwestern. Southwestern Community College District ("Southwestern") was established in 1960 and provides higher education in a 162-square mile area in the southern portion of the County. Southwestern operates one campus: Southwestern College in Chula Vista.

Southwestern has an projected enrollment of 16,107 full-time equivalent students for Fiscal Year 2010-11. For additional information relating to Kern, see "Appendix E – FINANCIAL AND DEMOGRAPHIC INFORMATION FOR SOUTHWESTERN COMMUNITY COLLEGE DISTRICT."

Security and Sources of Payment for the Bonds

The Bonds are limited obligations of the Authority payable solely from Revenues of the Authority, consisting of (i) the lease payments (the "Lease Payments") to be made by the Districts to the Authority pursuant to separate Lease/Purchase Agreements, dated as of October 1, 2010 (each, a "Lease" and collectively, the "Leases"), by and between the Authority and the respective Districts, and (ii) monies in the funds and accounts held by the Trustee pursuant to the Indenture. Under each Lease, the respective District agrees to pay Lease Payments to the Authority as rental for the use and possession of certain facilities (respectively, and collectively, the "Leased Property"). See "LEASED PROPERTY." The Lease Payments are payable from any source of legally available funds but are subject to abatement as described herein. See "LEASE PAYMENTS – Abatement."

Each District is only obligated to pay Lease Payments and to satisfy other obligations arising under such District's particular Lease. **The individual Districts are not obligated to make up for any deficiency in the Lease Payments of the other Districts.**

THE BONDS ARE LIMITED OBLIGATIONS 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 OF ITS INCOME OR RECEIPTS EXCEPT THE REVENUES. NEITHER THE STATE OF CALIFORNIA NOR THE AUTHORITY SHALL BE

OBLIGATED TO PAY THE PRINCIPAL OF THE BONDS, OR THE INTEREST THEREON, EXCEPT FROM REVENUES OF THE AUTHORITY AS DESCRIBED HEREIN. NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR THE INTEREST ON THE BONDS. NEITHER THE MEMBERS OF THE AUTHORITY NOR ANY PERSON EXECUTING THE BONDS SHALL BE LIABLE PERSONALLY ON THE BONDS OR BE SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE ISSUANCE OF THE BONDS.

Debt Service Reserve Fund

A Debt Service Reserve Fund, with separate sub-accounts for each District (each, a "Debt Service Reserve Account"), is established for the Bonds under the Indenture. Upon issuance of the Bonds, the Trustee shall deposit into the Debt Service Reserve Account of each District proceeds of the Bonds in an amount equal to the portion of the Reserve Requirement (defined herein) allocable to such District. Moneys available in the respective Debt Service Reserve Accounts will be available to pay the principal of and interest on the Bonds allocable to the respective District, in the event that amounts on deposit in the respective Interest Payment Accounts and Principal Payment Accounts, as such terms are defined herein, are insufficient therefor. See "SECURITY FOR THE BONDS – Debt Service Reserve Fund." Amounts available in a District's Debt Service Reserve Account are not available to pay principal of and interest on the Bonds allocable to any other District.

Description of the Bonds

The Bonds will mature on October 1 in the years and amounts set forth on the inside cover page hereof and will bear interest at the rates set forth on the inside cover page hereof from their date of delivery until their respective dates of maturity or prior redemption with accrued interest becoming payable on each April 1 and October 1, commencing April 1, 2011 (each such date, an "Interest Payment Date").

The Bonds are being issued in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds will be executed and delivered as fully registered certificates, registered in the name of Cede & Co. as nominee of The Depository Trust Company, New York, New York ("DTC"), and will be available to actual purchasers of the Bonds (the "Beneficial Owners") in the denominations set forth herein, under the book-entry system maintained by DTC, only through brokers and dealers who are or act through DTC Participants as described herein. Beneficial Owners will not be entitled to receive physical delivery of the Bonds. See "Appendix L – BOOK-ENTRY SYSTEM." In the event that the book-entry-only system described below is no longer used with respect to the Bonds, the Bonds will be registered and transferred in accordance with the Indenture.

Principal, premium, if any, and interest on the Bonds is payable by the Trustee to DTC. 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 herein. See "Appendix L – BOOK-ENTRY SYSTEM."

For a more complete description of the Bonds and the basic documentation pursuant to which they are being issued, see "THE BONDS" and "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS." The summaries and descriptions in this Official Statement of the Indenture, the Leases, the Site Leases, the Assignment Agreement, and other agreements relating to the Bonds are qualified in their entirety by the form thereof and the information with respect thereto included in such documents. All capitalized terms used in this Official Statement (unless otherwise defined herein) which are defined in the Indenture or the respective Leases shall have the same meanings assigned to such terms as set forth therein. See “Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Definitions.”

Forward-Looking Statements

Certain statements included or incorporated by reference in this Official Statement constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21E of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the United States Securities Act of 1933, as amended. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “budget” or other similar words. Such forward-looking statements include, but are not limited to, certain statements contained in the information regarding each District in the Appendices hereto.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE DISTRICTS DO NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THE FORWARD-LOOKING STATEMENTS SET FORTH IN THIS OFFICIAL STATEMENT.

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Allocation of Bonds

Each payment of principal made to the Owners of the Bonds will be made from Revenues received by the Trustee, comprised primarily of Lease Payments made by the Districts. Each District's Lease Payments are payable semi-annually on or before the 15th day of each March and September or, if such day is not a Business Day, then the first preceding Business Day. See "LEASE PAYMENTS" herein. The principal components of each Lease Payment are designed to be sufficient in both time and amount to pay, when due, the principal, on the Bonds allocable to the applicable District. The following table displays the relative percentages of principal of the Bonds allocable to each District.

Year Ending October 1	MiraCosta	Palomar	Southwestern	Total
2011	41.40%	48.41%	10.19%	100%
2012	41.10	48.47	10.43	100
2013	41.07	48.81	10.12	100
2014	41.04	48.55	10.40	100
2015	41.34	48.60	10.06	100
2016	41.62	48.65	9.73	100
2017	41.58	48.42	10.00	100
2018	41.33	48.47	10.20	100
2019	24.79	58.68	16.53	100
2020	0.00	0.00	100.00	100
2021	0.00	0.00	100.00	100
2022	0.00	0.00	100.00	100
2023	0.00	0.00	100.00	100

Tax Matters

In the opinion of 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 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. In the further opinion of Bond Counsel, interest (and original issue discount) on the Bonds is exempt from State of California personal income. See "TAX MATTERS."

Professionals Involved in the Offering

The Bank of New York Mellon Trust Company, N.A., Los Angeles, California, will act as Trustee with respect to the Bonds. Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel and Disclosure Counsel, will deliver its legal opinion in substantially the form set forth in Appendix I hereto. Certain legal matters will be passed upon for the Authority and the Districts by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, and for the Underwriter by Fulbright & Jaworski, L.L.P., Los Angeles, California.

Offering and Delivery of the Bonds

The Bonds are offered when, as and if authenticated, delivered and received by the Underwriter, subject to approval as to their legality by Bond Counsel and the satisfaction of certain other conditions. It is anticipated that the Bonds will be available in book-entry form for delivery through DTC in New York, New York, on or about October 1, 2010.

Bond Owners' Risks

Certain events could affect the ability of a District to make its respective Lease Payments when due. See "RISK FACTORS" for a discussion of certain factors that should be considered, in addition to other matters set forth herein, in evaluating an investment in the Bonds.

Continuing Disclosure

Each District has covenanted for the benefit of Bond Owners to provide certain financial information and operating data relating to the applicable District (the "Annual Report") by not later than: (i) with respect to MiraCosta and Palomar, nine months following the end of each fiscal year, and (ii) with respect to Southwestern, 270 days from the end of each fiscal year. Each District has also covenanted to provide notices of the occurrence of certain enumerated events, if deemed by such District to be material under federal securities laws. The Annual Report and notes of material events will be filed in accordance with the requirements of S.E.C. Rule 15c2-12(b)(5). See "CONTINUING DISCLOSURE." The information to be contained in the annual report or the notices of material events is set forth in "Appendix K – FORM OF CONTINUING DISCLOSURE CERTIFICATES." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

Other Matters

This Official Statement speaks only as of its date, and the information and expression of opinions contained herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Districts since the date hereof. This Official Statement, including any supplement or amendment hereto, is intended to be deposited with one or more repositories. The summaries of and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive, and all references herein are qualified in their entirety by reference to each document, statute, report or instrument.

Copies of the Leases and the Indenture will be available upon request from the Trustee.

THE PROJECTS AND REFUNDING PLAN

MiraCosta

MiraCosta is entering into its Lease to provide funds to refinance the portion of the California Community College Financing Authority, Lease Revenue Bonds, Series 1999A (the "1999 Authority Bonds") attributable to MiraCosta and maturing on October 1, 2011 through and including October 1, 2019 (the "Refunded MiraCosta Bonds"). The Refunded MiraCosta Bonds were issued to finance the construction of a learning center on the MiraCosta College campus and to refinance then-outstanding certificates of participation of MiraCosta.

A portion of the proceeds of the Bonds, together with monies on deposit in MiraCosta's debt service reserve account for the 1999 Authority Bonds, will be deposited into the debt service fund for the 1999 Authority Bonds (the "1999 Authority Bonds Debt Service Fund") held by The Bank of New York Mellon Trust Company, N.A., in its capacity as trustee for the 1999 Authority Bonds. Monies therein will be used to pay the principal of the Refunded MiraCosta Bonds on October 1, 2010, as well as the debt service due on the Refunded MiraCosta Bonds on and before such date.

Palomar

Palomar is entering into its Lease to provide funds to refinance the portion of the 1999 Authority Bonds attributable to Palomar and maturing on October 1, 2011 through and including October 1, 2019 (the "Refunded Palomar Bonds"). The Refunded Palomar Bonds were issued to refinance then-outstanding certificates of participation of Palomar.

A portion of the proceeds of the Bonds, together with monies on deposit in Palomar's debt service reserve account for the 1999 Authority Bonds, will be deposited into the 1999 Authority Bonds Debt Service Fund. Monies therein will be used to pay the principal of the Refunded Palomar Bonds on October 1, 2010, as well as the debt service due on the Refunded Palomar Bonds on and before such date.

Southwestern

Southwestern is entering into its Lease to provide funds to refinance the portion of the 1999 Authority Bonds to Southwestern and maturing on October 1, 2011 through and including October 1, 2024 (the "Refunded Southwestern Bonds"). The Refunded Southwestern Bonds were issued to finance the construction of a student center on the Southwestern College campus.

A portion of the proceeds of the Bonds, together with monies on deposit in Southwestern's debt service reserve account for the 1999 Authority Bonds, will be deposited into the 1999 Authority Bonds Debt Service Fund. Monies therein will be used to pay the principal of the Refunded Southwestern Bonds on October 1, 2010, as well as the debt service due on the Refunded Southwestern Bonds on and before such date.

THE LEASED PROPERTY

MiraCosta

MiraCosta's Lease will be secured by the Creative Arts Replacement Building located on the MiraCosta College campus (the "MiraCosta Leased Property"). The MiraCosta College campus is located at One Barnard Drive Oceanside, California 92056. The Creative Arts Replacement Building has a gross square footage of 21,574 feet and was completed in 2006 at a construction cost of approximately $12,103,167.

Pursuant to its Lease, MiraCosta has agreed and determined that the Lease Payments required to be made under its Lease represent the fair rental value of the MiraCosta Leased Property. Under the terms of its Lease, MiraCosta may substitute other property for the MiraCosta Leased Property or any portion thereof, provided that certain conditions set forth in its Lease are met. See "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS –Lease/Purchase Agreement – Removal or Substitution."

Palomar

Palomar's Lease will be secured by the Escondido Educational Center located in the City of Escondido (the "Palomar Leased Property"), and located at 1951 E. Valley Parkway, Escondido, California. The Escondido Educational Center consists of a three-building complex totaling 83,597 square feet. Palomar estimates that the insured replacement value of the Palomar Leased Property is $25,012,700.

Pursuant to its Lease, Palomar has agreed and determined that the Lease Payments required to be made under its Lease represent the fair rental value of the Palomar Leased Property. Under the terms of its Lease, Palomar may substitute other property for the Palomar Leased Property or any portion thereof, provided that certain conditions set forth in its Lease are met. See "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS –Lease/Purchase Agreement – Removal or Substitution."

Southwestern

Southwestern's Lease will be secured by the Learning Resources Center/Library building located on the Southwestern College campus (the "Southwestern Leased Property"). The Southwestern College campus is and located at 900 Otay Lakes Road, Chula Vista, California 91910. The Learning Resources Center/Library building has a gross square footage of 77,800 feet. Southwestern estimates that the insured replacement value of the Southwestern Leased Property is $22,947,700.

Pursuant to its Lease, Southwestern has agreed and determined that the Lease Payments required to be made under its Lease represent the fair rental value of the Southwestern Leased Property. Under the terms of its Lease, Southwestern may substitute other property for the Southwestern Leased Property or any portion thereof, provided that certain conditions set forth in its Lease are met. See "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS –Lease/Purchase Agreement – Removal or Substitution."

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale of the Bonds will be deposited with the Trustee. The estimated sources and uses of such funds are as follows:

Sources	Total
Par Amount of Bonds	$8,255,000.00
Original Issue Premium	289,238.40
Transfer from 1999 Authority Bonds Debt Service Reserve Fund	1,413,980.65
TOTAL SOURCES	$9,958,219.05
Uses	
Costs of Issuance[1]	$216,484.41
Deposit to 1999 Authority Bonds Debt Service Fund	8,890,000.00
Deposit to MiraCosta Debt Service Reserve Account	318,653.37
Deposit to Palomar Debt Service Reserve Account	392,081.27
Deposit to Southwestern Debt Service Reserve Account	141,000.00
TOTAL USES	$9,958,219.05

(1) Reflects all costs of issuance, including but not limited to legal fees, the Underwriter's discount, Trustee's fees, printing and delivery costs and other miscellaneous expenses.

THE BONDS

General

The Bonds will be issued pursuant to the Indenture in the aggregate principal amount of $8,255,000 and mature on October 1 in the years and amounts set forth on the inside cover page hereof. DTC will act as securities depository for the Bonds. The Bonds will be issued as one fully registered Bond for each maturity of Bonds, registered in the name of Cede & Co., as nominee of DTC, as registered owner of the Bonds. For a more complete description of the Book-Entry System, see "Appendix L – BOOK-ENTRY SYSTEM."

The Bonds will be issued in denominations of $5,000 principal amount or any integral multiple thereof. The Bonds will be dated their date of delivery and interest thereon will be payable semiannually on each Interest Payment Date, commencing April 1, 2011, at the rates per annum set forth on the inside cover page hereof. Interest on the Bonds will be payable to the registered owner thereof from the Interest Payment Date next preceding the date of registration thereof, unless (i) it is registered after the close of business on the 15th day of month immediately preceding an Interest Payment Date (the "Record Date") and before the close of business on the immediately following Interest Payment Date, in which event interest thereon will be payable from such Interest Payment Date, or (ii) it is registered prior to the close of business on March 15, 2011, in which event interest thereon will be payable from the date of delivery; provided, however, that if at the time of registration of any Bond interest thereon is in default, interest thereon shall be payable from the Interest Payment Date to which interest has previously been paid or made available for payment. Interest on the Bonds will be computed on the basis of a 360-day year comprising twelve 30-day months.

Redemption

Extraordinary Redemption. The Bonds are subject to extraordinary redemption in whole or in part prior to their respective stated maturities, at any time upon damage to or condemnation of the Leased Property from net proceeds of casualty insurance or condemnation award, at a redemption price equal to 100% of principal amount thereof, plus accrued interest thereon to the redemption date, without premium.

Optional Redemption. The Bonds are not subject to optional redemption prior to their stated maturity dates.

Notice of Redemption. Notice of redemption will be mailed by the Trustee in the name of the Authority, not less than 30 nor more than 60 days prior to the redemption date, to the respective owners of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee and one or more Information Services. So long as DTC is acting as securities depository for the Bonds, notice of redemption will be mailed to DTC, not the Beneficial Owners of the Bonds.

Each notice of redemption shall state the date of notice, the date of issue of the Bonds, the complete official name of the Bonds (including interest rate and maturity date), the redemption date, the redemption price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee), CUSIP numbers, if any, and, if less than all of any maturity is to be redeemed, the distinctive certificate numbers of the Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on such date there will become due and payable on each of such Bonds the redemption price thereof or of such specified portion of the principal thereof in the case of a Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered to the Trustee. Any defect in the notice or the mailing will not affect the validity of the redemption of any Bond.

Selection of Bonds for Redemption. Whenever provision is made in the Indenture for the redemption of less than all the Bonds of a particular maturity, the particular Bonds to be called for redemption shall be selected by the Trustee from all Outstanding Bonds of that maturity which are subject to such redemption by lot in any manner which the Trustee deems to be fair.

SECURITY FOR THE BONDS

Payment of the Bonds

The Indenture provides that the Bonds are payable solely from, and secured by (a) all amounts payable by the Districts pursuant to the Leases, including Lease Payments, as well as extensions and renewals of the term thereof, if any, including therein all amounts realized upon the enforcement of any Lease and all payments to be made thereunder (including prepayments); (b) any proceeds of Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds, accounts and sub-accounts established under the Indenture (except the Rebate Fund); (c) investment income with respect to any moneys held by the Trustee in the funds, accounts and sub-accounts established under the Indenture (except the Rebate Fund); and (d) any insurance proceeds or condemnation awards received by or payable to the Trustee with respect to property leased pursuant to the Leases, including rental interruption insurance (collectively, the "Revenues"), including, but without limiting the generality of the foregoing, the present and continuing right to make claim for, collect, receive and make receipt for any Revenues whether payable pursuant to the Leases or otherwise, to bring actions and proceedings under the Leases or for the enforcement thereof, and to do any and all things which the Authority is or may become entitled to do under the Lease; provided that the assignment made by this clause shall not impair or diminish any obligation of the Authority under the provisions of the Lease. The obligations of each District under the Leases are several and not joint obligations. Neither District is obligated to make up for any deficiency in the Lease Payments of the other District.

Lease Payments

Revenues of the Authority pledged under the Indenture consist primarily of the Lease Payments to be made by the Districts to the Authority under the Leases. Each District has agreed to pay to the Authority as rental for the use and possession of its Leased Property, the Lease Payments on the dates when due and in the amounts sufficient to pay the principal of and interest on the Bonds. Each District has agreed and determined that the total rental under its Lease will represent the fair rental value of its Leased Property. Lease Payments shall be paid from any source of legally available funds of the respective District, and so long as the Leased Property is available for a District's use, each District covenants to take such action as may be necessary to include all Lease Payments due under its Lease in its budgets and to maintain such items to the extent unpaid for that fiscal year in its budgets, and to make the necessary appropriations and supplemental appropriations to the extent necessary, for all such Lease Payments. For a further description of the Lease Payments, see "LEASE PAYMENTS."

FOR INFORMATION REGARDING THE DISTRICTS, INCLUDING FINANCIAL INFORMATION, SEE THE APPROPRIATE APPENDICES ATTACHED HERETO. SEE ALSO "CONSTITUTIONAL AND STATUTORY LIMITATIONS ON TAXES AND APPROPRIATIONS."

Each District's obligation to pay Lease Payments is subject to abatement. See "SECURITY FOR THE BONDS – Abatement" below. However, during periods of abatement, any moneys in a District's respective account of the Debt Service Fund or the Debt Service Reserve Fund are available to pay such District's Lease Payments.

Covenant to Budget and Appropriate

Pursuant to the Leases, each District covenants to take such action as may be necessary to include all Lease Payments in its budgets and to maintain such Lease Payments to the extent unpaid for that fiscal year in its budgets, and to make the necessary appropriations and supplemental appropriations to the extent necessary, for all such Lease Payments. Such covenants are deemed to be, and shall be, ministerial duties imposed by law, and it is the duty of each and every public official of the respective District to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the District to carry out and perform the covenants made by each District in its respective Lease.

Abatement

Lease Payments are paid by the Districts in each rental payment period for and in consideration of the right of use and occupancy of, and continued quiet use and enjoyment of the Leased Property during each such period for which said rental is to be paid.

The Lease Payments of a District shall be abated in whole or in part during any period during which by reason of damage or destruction (other than by condemnation) there is substantial interference with the use and possession of the Leased Property by the applicable District. The extent of such abatement shall be in an amount equal to the aggregate principal amount of Lease Payments remaining under the applicable Lease, less the fair rental value of the Leased Property not damaged or destroyed on the date of such abatement (provided that if such amount is a negative number then the amount of such abatement shall be $0); provided, however, that in the event such damage or destruction results in redemption of Bonds pursuant to the Indenture, the remaining Lease Payments (including credits to be applied thereto as provided in the Indenture) will be sufficient to pay all of the principal and interest on the remaining Outstanding Bonds allocable to the District. Such abatement shall not result to the extent moneys are held by the Trustee under the Indenture which are to be credited toward the District's Lease Payments under the terms of the Indenture (including, particularly, without limitation, the applicable accounts of the Debt Service Reserve Fund, the Principal Payment Account and the Interest Payment Account) and Net Proceeds of insurance and rental interruption insurance (plus unabated Lease Payments) are sufficient to make Lease Payments when and as due, it being hereby declared that such moneys and Net Proceeds constitute special funds for the payment of the District's Lease Payments. Subject to the preceding sentence, such abatement or adjustment, if any, shall continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction, if any.

Default and Remedies

Upon an Event of Default described below, the respective District will be deemed to be in default under its Lease, and the Trustee may exercise any and all remedies available pursuant to law or granted pursuant to the Lease. See "SECURITY FOR THE BONDS – Assignment." Upon any such default, including a failure to pay Lease Payments, the Trustee as assignee of the Authority may either (1) terminate the Lease and recover certain damages or (2) continue to collect rent from the District on an annual basis by seeking a separate judgment each year for that year's defaulted Lease Payments and/or reenter the Leased Property and relet it. See "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Lease/Purchase Agreement – Events of Default and Remedies." In the event of default, there is no remedy of the acceleration of the respective District's total Lease Payments due over the term of the respective Lease, and the Trustee is not empowered to sell the Leased Property and use the proceeds of such sale to redeem the Bonds or pay debt service thereon.

Events of Default under the Leases include (i) the failure of a District to pay any Lease Payment under its Lease when the same becomes due and payable, (ii) the failure of a District to observe and perform any covenant, condition or agreement of its Lease or in its Site Lease to be kept or performed by the District after notice and the elapse of a 30-day grace period and (iii) the filing by a District of a voluntary petition in bankruptcy or failure by a District to lift any execution, garnishment or attachment or the filing of an involuntary petition in bankruptcy against such District which has not been withdrawn within 30 days or insolvency of the District, all as more particularly described in "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Lease/Purchase Agreement – Events of Default and Remedies."

Insurance

The Leased Property of each District will be insured to the extent set forth in the applicable Lease. See "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Lease/Purchase Agreement – Fire and Extended Coverage Insurance" and "– Rental Interruption Insurance." Each Lease requires the respective District to procure or cause to be procured insurance against loss or damage to any part of the District's respective Leased Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. The extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, sprinkler damage, boiler explosion and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to 100% of the replacement cost of the District's respective Leased Property or the Bonds then Outstanding allocable to that District, whichever is greater (subject to a deductible clause of not to exceed the lesser of 10% of such amount or $250,000). Pursuant to its

Lease, the respective District may maintain such insurance as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the respective District and may self-insure for such risks in accordance with the terms of the applicable Lease only under certain conditions. See "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Lease – Insurance."

Each Lease requires the respective District to maintain rental interruption insurance to cover loss, total or partial, of the use of any part of its respective Leased Property as the result of any of the hazards covered by its insurance coverage required by its respective Lease and the resulting loss of rental income to the Trustee, as assignee of the Authority, in an amount sufficient to pay the maximum remaining principal and interest portions of the District's Lease Payments due under such Lease during a period of 24 months.

None of the Districts are required to maintain earthquake insurance on its Leased Property under its respective Lease.

Debt Service Reserve Fund

A Debt Service Reserve Fund, with separate Debt Service Reserve Accounts therein for each District, is established for the Bonds under the Indenture. Upon issuance of the Bonds, the Trustee shall deposit into the Debt Service Reserve Account of each District funds in an amount equal to the portion of the Reserve Requirement allocable to such District. The term "Reserve Requirement" means, with respect to the Bonds, the least of (i) the maximum aggregate annual principal and interest payments payable with respect to the Bonds, (ii) 125% of the average annual aggregate principal and interest payments payable with respect to the Bonds, and (iii) 10% of the face amount of the Bonds (less original issue discount if in excess of two percent (2%) of the stated redemption amount at maturity).

The Debt Service Reserve Account of a District will be available to pay principal of and interest on the Bonds allocable to such District to the extent of any deficiency in such District's respective Interest Payment Sub-Account and Principal Payment Sub-Account, only to the extent of moneys on deposit in such Debt Service Reserve Account, and for the other uses described in "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Indenture – Debt Service Reserve Fund." The Debt Service Reserve Account of a particular District will not be available to pay the principal of and interest on the Bonds allocable to any other District.

Under the Indenture, each District is authorized to satisfy the portion of the Reserve Requirement allocable to such District with an irrevocable letter of credit or other financial instrument meeting the requirements set forth therein (a "Reserve Facility"). Any amounts paid pursuant to a Reserve Facility, shall be deposited in the applicable Debt Service Reserve Account. A District may substitute moneys for all or part of the amount available to be drawn under a Reserve Facility so long as, at the time of such substitution, the amount on deposit in the applicable Debt Service Reserve Account, together with the amount available under such Reserve Facility (taking into account any reduction in the amount available under such Reserve Facility to be made in connection with said substitution) and the amounts available under any other available Reserve Facilities, shall be at least equal to such District's portion of the Reserve Requirement.

Assignment

Pursuant to the Assignment Agreement, the Authority assigns to the Trustee for the benefit of the owners of the Bonds issued under the Indenture, all of the Authority's rights under the Leases including, without limitation, (1) the right to receive and collect all of the Lease Payments and prepayments (as such terms are defined in the Indenture) from the Districts under the Leases or the Indenture as applicable,

(2) the right to receive and collect any proceeds of any insurance maintained thereunder, or any condemnation award rendered with respect to the Leased Property, or of any lease or sale of the Leased Property in the event of a default by one or more Districts under the Leases, (3) the right to take all actions and give all consents under the Leases, including without limitation, regarding subleases, regarding amendments, and regarding defaults, (4) the right to exercise such rights and remedies conferred on the Authority pursuant to the Leases as may be necessary or convenient (i) to enforce payment of the Lease Payments, prepayments and any other amounts required to be deposited in the funds and accounts established under the Indenture (other than the Rebate Fund), or (ii) otherwise to protect the interests of the Authority in the event of a default by one or more Districts under the Lease, and (5) the right of the Authority to receive rental in excess of Lease Payments as compensation for re-leasing any Leased Property upon events of default under the Leases, as provided in the Leases.

Removal or Substitution

Upon compliance with the conditions discussed in "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS," any District may amend or change the District's respective Leased Property at any time by delivering an amended description of the applicable Leased Property to the Trustee and the Authority. Each District reserves the right at any time to remove all or any portion of its respective Leased Property or to substitute other public facilities, equipment and/or real property owned by the District for all or any portion of its respective Leased Property.

LEASE PAYMENTS

General

As rental for the use and possession of each District's respective Leased Property, each District covenants under its Lease to pay Lease Payments in amounts required by the Authority for the payment of costs and expenses incurred by the Authority in connection with such Leased Property, including without limitation, the fees of the Authority charged to the District and expenses charged to the applicable District by the Trustee or the Authority as provided in the Indenture.

Each District's Lease Payments are payable semi-annually on or before the 15th day of each March and September or, if such day is not a Business Day, then the first preceding Business Day. The principal and interest components of each Lease Payment are designed to be sufficient in both time and amount to pay, when due, the principal, redemption premium (if any), and interest on the Bonds allocable to the applicable District. See "BOND PAYMENT SCHEDULES" herein.

District Obligation to Pay

Revenues of the Authority pledged under the Indenture consist primarily of the Lease Payments to be made by the Districts to the Authority under the Leases. Each District has agreed to pay to the Authority as rental for the use and possession of the Leased Property, the Lease Payments on the dates when due and in the amounts sufficient to pay the principal of and interest on the Bonds allocable to the District.

Notwithstanding any dispute between a District and the Authority, the District must make all Lease Payments when due without deduction or offset of any kind and cannot withhold any such payments pending final resolution of such dispute. Each Lease is a "net-net-net lease," and each District agrees that the rents will be an absolute net return to the Authority free and clear of any expenses, charges or set-offs whatsoever.

The obligations of each District under its Lease are several and not joint obligations and are strictly limited to the applicable District's Lease Payment obligations under its respective Lease.

RISK FACTORS

The following factors, which represent material risk factors that have been identified at this time, should be considered along with all other information in this Official Statement by potential investors in evaluating the Bonds. There can be no assurance made that other risk factors will not become evident at any future time.

Lease Payments Not District Debt

The Districts have not pledged the full faith and credit of any District, the State of California or any agency or department thereof to the payment of the Lease Payments or any other payments due under the Leases. In the event that a District's revenue sources are less than its total obligations, the District could choose to fund other services before making Lease Payments and other payments due under its Lease. The same result could occur if, because of California Constitutional limits on expenditures, a District is not permitted to appropriate and spend all of its available revenues.

The obligations of the District are several and not joint obligations and are strictly limited to such District's Lease Payment obligations under the applicable Lease.

Abatement Risk

During any period in which, by reason of material damage or destruction (other than by total condemnation), there is substantial interference with the use and possession by a District of any portion of such District's Leased Property, Lease Payments due under the applicable Lease with respect to the Leased Property will be abated proportionately, and the District waives any and all rights to terminate the Lease by virtue of any such interference and the Lease shall continue in full force and effect. The method for calculating the amount of abatement is described in "LEASE PAYMENTS – Abatement."

Self-Insurance

Pursuant to the Leases, each District is permitted to self-insure for casualty and standard comprehensive public entity liability so long as (a) the District provides evidence to the Authority and the Trustee that the District has segregated amounts in a special insurance reserve meeting the requirements of the Lease and (b) the Authority and the Trustee receive annually a certificate of an Insurance Consultant that such reserve is actuarially sound. See "Appendix J – SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Lease/Purchase Agreement" attached hereto. No assurance can be given that such self-insurance at the time of any casualty or loss will be adequate to cover any claims that might arise.

The Districts are not required under the Leases to maintain earthquake insurance on their Leased Property.

No Acceleration Upon Default

In the event of a default, there is no remedy of acceleration of the total Lease Payments due over the term of the Leases and the Trustee is not empowered to sell the Leased Property and use the proceeds of such sale to prepay the Bonds or pay debt service thereon. Any suit for money damages or repossession of the Leased Property would be subject to limitations on legal remedies against public entities in the State of California.

Limitations on Remedies

In addition to the limitations on remedies contained in the Indenture and the Leases, the rights and remedies provided in the Indenture and the Leases may be limited by and are subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases.

BOND PAYMENT SCHEDULES

MiraCosta

The scheduled annual principal and interest payments on the Bonds allocable to MiraCosta for each year ending October 1 are as shown on the following table:

Year Ending (October 1)	Principal Component	Interest Component[(1)]	Total
2011	$325,000.00	$95,650.00	$420,650.00
2012	335,000.00	85,900.00	420,900.00
2013	345,000.00	75,850.00	420,850.00
2014	355,000.00	65,500.00	420,500.00
2015	370,000.00	54,850.00	424,850.00
2016	385,000.00	40,050.00	425,050.00
2017	395,000.00	28,500.00	423,500.00
2018	405,000.00	16,650.00	421,650.00
2019	150,000.00	4,500.00	154,500.00
2020	--	--	--
2021	--	--	--
2022	--	--	--
2023	--	--	--
Total	$3,065,000.00	$467,450.00	$3,532,450.00

(1) Interest payments on the Bonds will be made semiannually on April 1 and October 1, commencing on April 1, 2011.

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Palomar

The scheduled annual principal and interest payments on the Bonds allocable to Palomar for each year ending October 1 are as shown on the following table:

Year Ending (October 1)	Principal Component	Interest Component(1)	Total
2011	$380,000.00	$117,750.00	$497,750.00
2012	395,000.00	106,350.00	501,350.00
2013	410,000.00	94,500.00	504,500.00
2014	420,000.00	82,200.00	502,200.00
2015	435,000.00	69,600.00	504,600.00
2016	450,000.00	52,200.00	502,200.00
2017	460,000.00	38,700.00	498,700.00
2018	475,000.00	24,900.00	499,900.00
2019	355,000.00	10,650.00	365,650.00
2020	--	--	--
2021	--	--	--
2022	--	--	--
2023	--	--	--
Total	$3,780,000.00	$596,850.00	$4,376,850.00

(1) Interest payments on the Bonds will be made semiannually on April 1 and October 1, commencing on April 1, 2011.

Southwestern

The scheduled annual principal and interest payments on the Bonds allocable to Southwestern for each year ending October 1 are as shown on the following table:

Year Ending (October 1)	Principal Component	Interest Component(1)	Total
2011	$80,000.00	$47,493.76	$127,493.76
2012	85,000.00	45,093.76	130,093.76
2013	85,000.00	42,543.76	127,543.76
2014	90,000.00	39,993.76	129,993.76
2015	90,000.00	37,293.76	127,293.76
2016	90,000.00	33,693.76	123,693.76
2017	95,000.00	30,993.76	125,993.76
2018	100,000.00	28,143.76	128,143.76
2019	100,000.00	25,143.76	125,143.76
2020	105,000.00	22,143.76	127,143.76
2021	115,000.00	17,943.76	132,943.76
2022	115,000.00	13,918.76	128,918.76
2023	260,000.00	9,750.00	269,750.00
Total	$1,410,000.00	$394,150.12	$1,804,150.12

(1) Interest payments on the Bonds will be made semiannually on April 1 and October 1, commencing on April 1, 2011.

Total Debt Service Payments

The total scheduled annual principal and interest payments on the Bonds for each year ending October 1 are as shown on the following table:

Year Ending (October 1)	Principal Component	Interest Component[1]	Total
2011	$785,000.00	$260,893.76	$1,045,893.76
2012	815,000.00	237,343.76	1,052,343.76
2013	840,000.00	212,893.76	1,052,893.76
2014	865,000.00	187,693.76	1,052,693.76
2015	895,000.00	161,743.76	1,056,743.76
2016	925,000.00	125,943.76	1,050,943.76
2017	950,000.00	98,193.76	1,048,193.76
2018	980,000.00	69,693.76	1,049,693.76
2019	605,000.00	40,293.76	645,293.76
2020	105,000.00	22,143.76	127,143.76
2021	115,000.00	17,943.76	132,943.76
2022	115,000.00	13,918.76	128,918.76
2023	260,000.00	9,750.00	269,750.00
Total	$8,255,000.00	$1,458,450.12	$9,713,450.12

(1) Interest payments on the Bonds will be made semiannually on April 1 and October 1, commencing on April 1, 2011.

THE AUTHORITY

The Authority is a public entity organized pursuant to a Joint Exercise of Powers Agreement entered into pursuant to the Act. The Community College League of California sponsored the formation of the Authority for the purpose of funding cashflow and capital improvements for its member community college districts within the State pursuant to the Act.

Pursuant to the Act, the Authority is authorized to issue bonds for the purpose of financing, refinancing or providing reimbursement for costs incurred in connection with the construction, expansion, remodeling, renovation, furnishing, equipping or acquisition of public capital improvements of public entities such as the Districts. The Act provides for the issuance of revenue bonds of joint exercise of powers authorities, such as the Authority, to be repaid from the proceeds of certain public obligations, such as the Leases. The intent of the California legislature, as stated in the Act, is to assist in the reduction of local borrowing costs, help accelerate the construction, repair, and maintenance of public capital improvements and promote greater use of existing and new financial instruments and mechanisms such as bond pooling by local public entities.

FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA

Major Revenues

General. California community college districts (other than Basic Aid Districts, as described below) receive, on average, approximately 52 percent of their funds from the State, 44 percent from local sources, and 4 percent from federal sources. State funds include general apportionment, categorical funds, capital construction, the lottery (which is less than 3 percent), and other minor sources. Local funds include property taxes, student fees, and miscellaneous sources.

In the past, a community college district determined its revenue allocation using a program-based model. The model used different factors to establish support levels for five different categories at the community college district: (1) Instruction and Instructional Administration: (2) Instructional Services, (3) Student Services; (4) Operation and Maintenance of Plants, and (5) Institutional Support. Different standards were used in each category to determine funding requirements. The target allocation was obtained by calculating the exact cost of funding the specific standards in each category, on a district by district basis. The aggregate total of the financial needs of the five categories established the amount of funding a district received. State general fund moneys, local property taxes, and certain other local revenues were allocated to the community college districts based on annual State apportionments of basic and equalization aid to community college districts for general purposes computed up to a base revenue per unit of full time equivalent students ("FTES"). Such apportionments, generally speaking, amounted to the difference between a district's base revenue and its local property tax allocation and student enrollment fees. Base revenue calculations were adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all community college districts in the State.

A bill passed by the State's legislature ("SB 361"), and signed by the Governor on September 29, 2006, established a new community college funding system with immediate effect. The new system includes allocation of state general apportionment revenues to community college districts based on criteria developed by the Board of Governors of the California Community Colleges (the "Board of Governors") in accordance with prescribed statewide minimum requirements. In establishing these minimum requirements, the Board of Governors was required to acknowledge community college districts' need to receive an annual allocation based on the number of colleges and comprehensive centers in each respective district, plus funding received based on the number of credit and noncredit FTES in each district.

SB 361 also specifies that, commencing with the 2006-07 fiscal year the minimum funding per FTES will be: (a) not less than $4,367 per credit FTES (subject to cost of living adjustments funded through the budget act in subsequent fiscal years); (b) at a uniform rate of $2,626 per noncredit FTES (adjusted for the change in cost of living provided in the budget act in subsequent fiscal years); and (c) set at $3,092 per FTES (adjusted for the change in cost of living provided in the budget act in subsequent fiscal years) for a new instructional category of "career development and college preparation" ("CDCP") enhanced non-credit rate. Pursuant to SB 361, the Chancellor of the California Community Colleges (the "Chancellor") developed criteria for one-time grants for districts that would have received more funding under the prior system or a proposed rural college access grant, than under the new system.

MiraCosta's base revenue per credit unit of FTES for 2007-08, 2008-09 and 2009-10 were approximately $4,379.27, $4,576.91, and $4,574.86 respectively, and per non-credit unit of FTES for the same years were, on average, approximately $2,626, $2,744.96 and $2,744.96 respectively. MiraCosta projects, on average, that its respective base revenue per credit unit of FTES for 2010-11 will be $4,574.86 and that its base revenue per non-credit unit of FTES will be $2,744.96.

Palomar's base revenue per credit unit of FTES for 2007-08, 2008-09 and 2009-10 were approximately $4,565, $4,565, and $4,565 respectively, and per CDCP enhanced non-credit unit of FTES for the same years were, on average, approximately $3,232, $3,232 and $3,232 respectively, and per non-credit unit of FTES for the same years were approximately $2,745, $2,745 and $2,745. Palomar projects, on average, that its respective base revenue per credit unit of FTES for 2010-11 will be $4,656, that its base revenue per CDCP enhanced non-credit unit of FTES will be $2,232 and that its base revenue per non-credit unit of FTES will be $2,745.

Southwestern's base revenue per credit unit of FTES for 2007-08, 2008-09 and 2009-10 were approximately $4,367.00 , $4,564.82, and $4,564.82 respectively, and per non-credit unit of FTES for the same years were, on average, approximately $2,626.00, $2,744.96 and $2,744.96 respectively. Southwestern projects, on average, that its respective base revenue per credit unit of FTES for 2010-11 will be $4,564.82 and that its base revenue per non-credit unit of FTES will be $2,744.96.

The major local revenue source is local property taxes that are collected from within District boundaries. Student enrollment fees from the local community college district generally account for the remainder of local revenues for the District. State funding is subject to the appropriation of funds in the State's annual budget. Decreases in State revenues may affect appropriations made by the legislature to the Districts. The sum of the property taxes, student enrollment fees, and State aid generally comprise the revenue limit of each District.

A small part of a community college district's budget is from local sources other than property taxes and student enrollment fees, such as interest income, donations and sales of property. Every community college district receives the same amount of lottery funds per pupil from the State, however, these are not categorical funds as they are not for particular programs or students. The initiative authorizing the lottery does require the funds to be used for instructional purposes, and prohibits their use for capital purposes.

Basic Aid. "Basic Aid" community college districts are those districts whose local property tax and student enrollment fee collections exceed the revenue allocation determined by SB 361. Basic aid districts do not receive any funds from the State. The current law in California allows these districts to keep the excess funds without penalty. The implication for Basic Aid Districts is that the legislatively determined annual cost of living adjustment and other politically determined factors are less significant in determining such districts' primary funding sources. Rather, property tax growth and the local economy become the determinant factors. MiraCosta is currently a Basic Aid District; Palomar and Southwestern are not Basic Aid Districts.

Tax Shifts and Triple Flip

Assembly Bill No. 1755 ("AB 1755"), introduced March 10, 2003 and substantially amended June 23, 2003, requires the shifting of property taxes between redevelopment agencies and schools, including community college districts. On July 29, 2003, the Assembly amended Senate Bill No. 1045 to incorporate all of the provisions of AB 1755, except that the Assembly reduced the amount of the required Education Revenue Augmentation Fund ("ERAF") shift to $135 million. Legislation commonly referred to as the "Triple Flip" was approved by the voters on March 2, 2004, as part of a bond initiative formally known as the "California Economic Recovery Act." This act authorized the issuance of $15 billion in bonds to finance the 2002-03 and 2003-04 State budget deficits, which are payable from a fund established by the redirection of tax revenues through the "Triple Flip." Under the "Triple Flip," one-quarter of local governments' one percent share of the sales tax imposed on taxable transactions within their jurisdiction is redirected to the State. In an effort to eliminate the adverse impact of the sales tax revenue redirection on local government, the legislation redirects property taxes in the ERAF to local government. Because the ERAF monies were previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues. It is expected that the swap of sales taxes for property taxes would terminate once the deficit financing bonds are repaid.

Budget Procedures

On or before September 15, the Board of Trustees of each District is required under Section 58305 of the California Code of Regulations, Title V, to adopt a balanced budget. Each September, every State agency, including the Chancellor's Office of the California Community Colleges, submits to the Department of Finance ("DOF") proposals for changes in the State budget. These proposals are submitted in the form of Budget Change Proposals ("BCPs"), involving analyses of needs, proposed solutions and expected outcomes. Thereafter, the DOF makes recommendations to the governor, and by January 10 a proposed State budget is presented by the governor to the legislature. The Governor's Budget is then analyzed and discussed in committees and hearings begin in the State Assembly and Senate. In May, based on the debate, analysis and changes in the economic forecasts, the governor issues a revised budget with changes he or she can support. The law requires the legislature to submit its approved budget by June 15, and by June 30 the governor should announce his or her line item reductions and sign the State budget. In response to growing concern for accountability and with enabling legislation (AB 2910, Chapter 1486, Statutes of 1986), the statewide governing board of the California community colleges (the "Board of Governors") and the Chancellor's Office have established expectations for sound district fiscal management and a process for monitoring and evaluating the financial condition to ensure the financial health of California's community college districts. In accordance with statutory and regulatory provisions, the Chancellor has been given the responsibility to identify districts at risk and, when necessary, the authority to intervene to bring about improvement in their financial condition. To stabilize a district's financial condition, the Chancellor may, as a last resort, seek an appropriation for an emergency apportionment.

The monitoring and evaluation process is designed to provide early detection and amelioration that will stabilize the financial condition of a district before an emergency apportionment is necessary. This is accomplished by (1) assessing the financial condition of districts through the use of various information sources and (2) taking appropriate and timely follow-up action to bring about improvement in a district's financial condition, as needed. A variety of instruments and sources of information are used to provide a composite of each district's financial condition, including quarterly financial status reports, annual financial and budget reports, attendance reports, annual district audit reports, district input and other financial records. In assessing each district's financial condition, the Chancellor will pay special attention to each district's general fund balance, spending pattern, and full-time equivalent student patterns. Those districts with greater financial difficulty will receive follow-up visits from the Chancellor's Office where financial solutions to the district's problems will be addressed and implemented.

State Cash Management Legislation. On March 1, 2010, the Governor signed into law Assembly Bill No. 5 of the Eighth Extraordinary Session of the California Legislature ("ABX8 5") which enacted various provisions to enable the State to effectively manage its cash resources. On March 22, 2010, the Governor signed into law Assembly Bill No. 14 of the Eighth Extraordinary Session of the California Legislature ("ABX8 14," and together with ABX8 5, the "Cash Management Legislation"), which bill amended and clarified certain provisions of ABX8 5. With respect to the funding of California community college districts in Fiscal Year 2010-11, the Cash Management Legislation authorized the deferral of $200 million and $100 million from the apportionments due to California community college districts in July 2010 and March 2011, respectively. These apportionments are being deferred until October 2010 and May 2011, respectively. The Cash Management Legislation also provided for an exemption to either or both of these deferrals for a community college district for which the State Chancellor, in consultation with the State Director of Finance, determines, prior to May 17, 2010, that the proposed deferral presents an imminent threat to such district's fiscal integrity and security. None of the Districts applied for the exemption described above provided by the Cash Management Legislation.

Minimum Funding Guarantees for California Community College Districts Under Propositions 98 and 111

General. In 1988, California voters approved Proposition 98, an initiative that amended Article XVI of the State Constitution and provided specific procedures to determine a minimum guarantee for annual K-14 funding. The constitutional provision links the K-14 funding formulas to growth factors that are also used to compute the State appropriations limit. Proposition 111 (Senate Constitutional Amendment 1), adopted in June 1990, among other things, changed some earlier school funding provisions of Proposition 98 relating to the treatment of revenues in excess of the State spending limit and added a third funding "test" to calculate the annual funding guarantee. This third calculation is operative in years in which general fund tax revenue growth is weak. The amendment also specified that under Test 2 (see below), the annual cost of living adjustment (COLA) for the minimum guarantee for annual K-14 funding would be the change in California's per-capita personal income, which is the same COLA used to make annual adjustments to the State appropriations limit (Article XIIIB).

Calculating Minimum Funding Guarantee. There are currently three tests which determine the minimum level of K-14 funding. Under implementing legislation for Proposition 98 (AB 198 and SB 98 of 1989), each segment of public education (K-12 districts, community college districts, and direct elementary and secondary level instructional services provided by the State) has separately calculated amounts under the Proposition 98 tests. The base year for the separate calculations is 1989-90. Each year, each segment is entitled to the greater of the amounts separately computed for each under Test 1 or 2. Should the calculated amount Proposition 98 guarantee (K-14 aggregated) be less than the sum of the separate calculations, then the Proposition 98 guarantee amount shall be prorated to the three segments in proportion to the amount calculated for each. This statutory split has been suspended in every year beginning with 1992-93. In those years, community colleges received less than was required from the statutory split.

Test 1 guarantees that K-14 education will receive at least the same funding share of the State general fund budget it received in 1986-87. Initially, that share was just over 40 percent. Because of the major shifts of property tax from local government to community colleges and K-12 which began in 1992-93 and increased in 1993-94, the percentage dropped to 33.0%.

Test 2 provides that K-14 education will receive as a minimum, its prior-year total funding (including State general fund and local revenues) adjusted for enrollment growth (ADA) and per-capita personal income COLA.

A third formula, established pursuant to Proposition 111 as "Test 3," provides an alternative calculation of the funding base in years in which State per-capita General Fund revenues grow more slowly than per-capita personal income. When this condition exists, K-14 minimum funding is determined based on the prior-year funding level, adjusted for changes in enrollment and COLA where the COLA is measured by the annual increase in per-capita general fund revenues, instead of the higher per-capita personal income factor. The total allocation, however, is increased by an amount equal to one-half of one percent of the prior-year funding level as a funding supplement.

In order to make up for the lower funding level under Test 3, in subsequent years K-14 education receives a maintenance allowance equal to the difference between what should have been provided if the revenue conditions had not been weak and what was actually received under the Test 3 formula. This maintenance allowance is paid in subsequent years when the growth in per-capita State tax revenue outpaces the growth in per-capita personal income.

The enabling legislation to Proposition 111, Chapter 60, Statutes of 1990 (SB 98, Garamendi), further provides that K-14 education shall receive a supplemental appropriation in a Test 3 year if the annual growth rate in non-Proposition 98 per-capita appropriations exceeds the annual growth rate in per-pupil total spending.

State Assistance

California community college districts' principal funding formulas and revenue sources are derived from the budget of the State of California. The following information concerning the State of California's budgets has been obtained from publicly available information which the Authority and the Districts believe to be reliable; however, the Authority and the Districts take no responsibility as to the accuracy or completeness thereof, and have not independently verified such information.

Governor's Proposed 2010-2011 State Budget. On January 8, 2010, the Governor released his proposed budget for fiscal year 2010-11 (the "Proposed 2010-11 Budget"). On January 12, 2010, the Legislative Analyst's Office (the "LAO") released its overview of the Proposed 2010-11 Budget; on April 25, 2010, the LAO also released supplemental reports on the provisions of the Proposed 2010-11 Budget affecting education funding. The following information is adapted from these reports.

The Proposed 2010-11 Budget estimates that, absent corrective measures, the State will end fiscal year 2009-10 with a $6.6 billion deficit. Also, General Fund expenditures in fiscal year 2010-11 are projected to exceed revenues by approximately $12.3 billion. The projected budget gap results from an inability of the state to achieve previous budget solutions in several areas, the effects of certain adverse court rulings, and the expiration of various one-time and temporary budget solutions approved as part of the 2009-10 State budget.

To address the projected budget gap, the Proposed 2010-11 Budget includes approximately $19.9 billion worth of measures affecting both fiscal year 2009-10 and 2010-11. Specifically, the Proposed 2010-11 Budget includes $7.6 billion of expenditure reductions, $7.9 billion worth of measures requiring either federal government funding or flexibility to change programs funded wholly or in part by the federal government, and $4.5 of additional solutions, comprised primarily of fund shifts.

With the implementation of these measures, the Proposed 2010-11 Budget assumes year-end revenues of $88.1 billion for fiscal year 2009-10, an increase of 6.4% from the prior year. The State is projected to end the 2009-10 fiscal year with a $5.4 billion deficit, thus eliminating the $500 million surplus enacted as part of the budget for 2009-10. For fiscal year 2010-11, the Proposed 2010-11 Budget assumes total expenditures of $82.9 billion (reflecting a decrease of 3.7% from the prior year) and total revenues of $89.3 billion (reflecting an increase of 1.4% from the prior year). The State is also projected to end fiscal year 2010-11 with a $1 billion surplus.

The proposed 2010-11 Budget makes mid-year adjustments to Proposition 98 funding for fiscal year 2009-10, and which represent a recapturing of K-12 funding that is expected to go unused. The Proposed 2010-11 Budget also delays a significant portion of the $11.2 billion "maintenance factor" payments approved as part of the budget for fiscal year 2009-10, from which the Proposed 2010-11 Budget recognizes substantial general fund savings in both 2009-10 and 2010-11.

For fiscal year 2010-11, the Proposed 2010-11 Budget implements approximately $2.2 billion in total reductions, with the largest reduction (approximately $1.5 billion) affecting K-12 revenue limit funding. With respect to the community college districts, significant reductions include (i) $23 million by applying a negative 0.38% COLA to apportionments and certain categorical programs, (ii) $28 million reduction to funding for the Career Technical Education Pathways Initiative, and (iii) base cuts of $10 million each to extended opportunity programs and services and part-time faculty compensation. Though the Proposed 2010-11 Budget does provide an increase of $126 million to fund a 2.2% growth in enrollment, student fees are maintained at $26 per unit.

The Proposed 2010-11 Budget would implement new flexibility for school and community college districts to respond to the various proposed cuts. For community college districts, these options include (1) easing restrictions on the contracting out non-instructional services, (2) removing restrictions on the use of certain protected categorical program funding, and (3) suspending the requirement that prescribes the percentage and number of full-time faculty districts must employ.

With the implementation of these measures, the Proposed 2010-11 Budget provides for $49.8 billion in Proposition 98 funding for fiscal year 2009-10, including $5.6 billion for community college education. For fiscal year 2010-11, Proposition 98 funding is set at $49.9 billion, including $5.9 billion for community college education, reflecting an increase of 3.9% from the prior year. The LAO notes that, while Proposition 98 funding remains virtually flat across fiscal years 2009-10 and 2010-11, the State general fund share will increase by approximately 4.1%, while the share covered by local property tax revenues will decline by approximately 8.7%. While this is attributable in part to the slumping real estate market, the bulk of the decline in State general fund support results from the one-time $850 million contribution from redevelopment agencies approved as part of the budget for 2009-10.

In addition to the provisions regarding education funding discussed above, the Proposed 2010-11 Budget includes the following major features:

- *Transportation Funding.* Elimination of most Proposition 42 transportation funding by repealing the State sales tax on gasoline. The State would make up the lost revenues by increasing the per gallon excise tax on gasoline (the "Gas Tax"). For fiscal year 2010-11, this proposal is projected to reduce fuel sales tax revenues by $2.8 billion. The Proposed 2010-11 Budget would partially offset this loss with a 10.8 cents per gallon increase of the Gas Tax, which is projected to generate $1.9 billion in revenues, resulting in a net reduction of transportation revenues of approximately $1 billion. The Proposed 2010-11 Budget does not provide any additional public transit or rail funding, either in fiscal year 2010-11 or going forward. In addition, by reducing State sales tax revenues, the Proposed 2010-11 Budget expects to achieve additional savings by lowering the Proposition 98 minimum funding guarantee.

- *State Employees.* $1.6 million of anticipated general fund savings by ending the current employee furlough program and instituting (1) a five percent reduction of state employee salaries across the board, (2) a five percent increase in employee pension contributions, and (3) a five percent unallocated reduction of departmental personnel costs.

- *Medi-Cal.* $750 million of various measures designed to reduce Medi-Cal costs through unspecified limits on services, utilization controls, and increased cost sharing with benefits recipients through copayment requirements or premiums. The Proposed 2010-11 Budget also anticipates $294 million in savings in fiscal years 2009-10 and 2010-11 by eliminating full-scope Medi-Cal services for certain immigrants, eliminating adult day health care benefits, delaying payments to institutional providers, and rescinding family planning rate increases.

- *Corrections/Rehabilitation.* $811 million of assumed savings from the reduction of inmate medical costs. The LAO notes that the Proposed 2010-11 Budget fails to specify the measures of achieving this savings. The Proposed 2010-11 Budget also assumes savings of $25 million in fiscal year 2009-10 and $292 million in 2010-11 by requiring that certain non-serious, non-violent and non-sex-offense felonies result in one-year county jail sentences in lieu of state prison sentences.

- *Department of Developmental Services.* $200 million in assumed savings in fiscal year 2010-11 through various cost-control measures for the Department of Developmental Services ("DDS").

- *Delay of Local Government Mandate Payments.* $137 million in anticipated reductions by suspending mandates not related to elections, law enforcement and property taxes. The Proposed 2010-11 Budget also anticipates saving $95 million by deferring scheduled mandates for costs incurred prior to fiscal year 2004-05.

- *Social Services.* $178 million in reductions to SSI/SSP programs by reducing grants to individuals by $15 per month (or 1.8%). The Proposed 2010-11 Budget also includes a 15.7% reduction in CalWORKs grants, with assumed general fund savings of $117 million.

- *Proposition 10 Ballot Proposal.* The Proposed 2010-11 Budget would have placed, on the June 2010 election ballot, a measure to allow use of Proposition 10 early childhood development funds for State general fund-supported DDS and Department of Social Services programs that serve children. It was anticipated that these measures would generate $550 million in general fund savings. The LAO notes that this proposal is similar to the Proposition 1D ballot proposal that was unsuccessfully put to the voters as part of the budget for fiscal year 2009-10.

- *Proposition 63 Ballot Proposal.* The Proposed 2010-11 Budget also proposed placing on the June 2010 election ballot a measure shifting $452 million of Proposition 63 mental health funds to pay State general fund costs for specified Department of Mental Health programs in fiscal years 2010-11 and 2011-12. The LAO notes that this proposal is similar to the Proposition 1E ballot proposal that was unsuccessfully put to the voters as part of the budget for fiscal year 2009-10.

- *Other Measures.* The Proposed 2010-11 Budget also includes the following measures: (1) elimination of the Cash Assistance Program for Immigrants and the California Food Assistance Program ($200 million); (2) use of automated speed enforcement systems to reduce state costs for trial courts ($297 million); (3) a 4.8% surcharge on residential and commercial property insurance ($200 million) to cover fire protections costs; (4) approval by the Legislature of a lease to mine oil and gas off the Santa Barbara coast ($197 million) to cover costs associated with the State park system.

In addition to the various expenditures reductions and revenue measures described above, the Proposed 2010-11 Budget relies heavily on the receipt of federal government funding, or operating flexibility for state-federal programs, collectively totaling $7.9 billion. As discussed above, the LAO notes that other portions of the Proposed 2010-11 Budget, including some cuts to education funding, may also require federal approval.

The Proposed 2010-11 Budget identifies $6.9 billion of federal funds to relieve fiscal year 2010-11 general fund costs, many of which, if received, would be of a one-time nature. These funds include the following:

- *Medi-Cal/Medicare.* Assumed savings of $1.8 billion by having the federal government increase the State's Federal Medical Assistance Percentage ("FMAP") funding ratio. The Proposed 2010-11 Budget also would request the federal government to extend through June 30, 2011 the increased FMAP provided as part of ARRA, resulting in an assumed savings of $1.2 billion. Pursuant to ARRA, this increased FMAP is set to expire during calendar year 2010. Finally, the Proposed 2010-11 Budget assumes $1 billion in Medi-Cal relief from various federal moneys the Governor's administration believes are owed to the State, including funds related to health costs for individuals actually eligible for Medicare and changes to the level of state funding for prescription drug costs.

- *Other Federal Funds.* The Proposed 2010-11 Budget assumes State general fund savings in connection with other miscellaneous programs, including: (1) $1 billion of anticipated federal reimbursement for special education services; (2) $538 million from an extension of ARRA funding for the CalWORKs program; and (3) $880 million of federal funding to fully offset costs of incarcerating undocumented immigrant, which the LAO notes is substantially in excess the federal funding the State has received in past years for such costs (approximately $111 million per year).

The Proposed 2010-11 Budget includes other expenditure and revenue measures that may be triggered in the event some of the above-described federal funds are not received. Possible expenditure reductions ($3.8 billion) include elimination of the CalWORKs, IHSS and Health Families programs, and well as an additional five percent state employee salary reduction. Possible one-time revenue increases ($2.3 billion) include the extension of business tax changes relating to operating losses, extension of the temporary reduction in the dependent personal income tax credit approved as part of the budget for fiscal year 2009-10, and the delayed implementation of various other personal and corporate tax breaks.

While generally supportive of the Proposed 2010-11 Budget's revenue forecasts, the LAO perceives some flaws. Beyond questioning some of the assumed savings claimed by the Proposed 2010-11 Budget, the LAO notes that many of the proposed measures, such as a unilateral increase in state employee pension contributions or the changes to the fiscal year 2009-10 Proposition 98 maintenance factor discussed above, raise questions regarding their legality. Other proposed cuts to health, social services and transportation funding may face lawsuits. Finally, the LAO cautions that it is highly unlikely that the State will receive all the federal funds or flexibility sought by the Proposed 2010-11 Budget, and advocates more modest assumptions in the receipt of such federal assistance.

Additional information regarding the Proposed 2010-2011 Budget may be obtained from the LAO at www.lao.ca.gov.

Governor's May Revision to the Proposed 2010-11 Budget. On May 14, 2010, the Governor released his May revision to the Proposed 2010-11 Budget (the "May Revision"). On May 18, 2010, the LAO released its summary of the May Revision (the "May Revision Summary"). The following information is drawn from the May Revision Summary.

The May Revision estimates a total budget deficit of $17.9 billion, a net reduction of approximately $1 billion from the deficit projected by the Proposed 2010-11 Budget. This reduction results from (1) increased State revenues occasioned by the Gas Tax and enhanced Medicaid federal matching funds and (2) offsetting cost increases and declines in State revenues. Absent corrective action, the May Revision estimates that the State will end fiscal year 2009-10 with a $7.7 billion deficit. State general fund expenditures for fiscal year 2010-11 are also expected to exceed revenues by approximately $10.2 billion.

To address this projected gap, the May Revision proposes measures totaling $19.1 billion for both fiscal years 2009-10 and 2010-11. These measures are in addition to, or modify, those set out by the Proposed 2010-11 Budget. Specifically, the May Revision proposes $12.2 billion in expenditure reductions, $2.6 billion in loans, transfers and fund shifts, and $900,000 in revenue increases. The May Revision also assumes the receipt of $3.4 billion in federal funds, a significant decrease from the amount assumed by the Proposed 2010-11 Budget.

With the implementation of these measures, the May Revision assumes, for fiscal year 2009-10, year-end revenues of $86.5 billion and expenditures of $86.4 billion. The May Revision projects that the State will end the 2009-10 fiscal year with a deficit of $6.8 billion. For fiscal year 2010-11, the May Revision projects total revenues of $91.4 billion and expenditures of $83.4 billion. The May Revision projects that the State will end the 2010-11 fiscal year with a $1.2 billion reserve.

For fiscal year 2009-10, the May Revision keeps total Proposition 98 funding virtually unchanged at $49.9 billion. This level of funding is maintained despite a drop in State general fund revenues and a corresponding decrease in the Proposition 98 minimum guarantee. As a result, the May Revision provides for $503 million more than the Proposed 2010-11 Budget. The May Revision counts this overappropriation as a payment towards the State's $11.2 billion in outstanding maintenance factor payments. Although total Proposition 98 funding remains relatively unchanged, the State general fund share increases to $35.8 billion (including $11.5 million for community college funding) to offset declines in local property tax revenues and oil/mineral revenues.

For fiscal year 2010-11, the May Revision reduces total Proposition 98 funding to $48.4 billion, including $35 billion from the State general fund. The May Revision purports to achieve the bulk of this reduction ($1.2 billion) by eliminating all Proposition 98 support for state-subsidized child care.

With respect to community college funding, the May Revision rescinds a proposed suspension of the Cal Grants program and provides $45.5 million to fund new grants in fiscal year 2010-11. Although the May Revision provides for an increase in the negative COLA approved by the Proposed 2010-11 Budget, this increase is limited to K-12 education funding. The May Revision also makes no changes to the $126 million allocated to fund community college enrollment growth, and maintains the current $26 per unit student fee.

The May Revision purports to achieve $1.5 billion in savings by "rebenching" the Proposition 98 minimum funding guarantee to reflect the elimination of child care services discussed above. The LAO notes that the legality of this rebenching is unclear and suggests that the Legislature consider suspending Proposition 98 in fiscal year 2009-10 and fund the minimum Proposition 98 guarantee amount of $50.8 billion in fiscal year 2010-11. Alternatively, the LAO suggests suspending the guarantee in both fiscal years and funding a flat amount of $49.8 billion.

Other significant measures included as part of the May Revision are discussed below:

- *State Employees.* $795 million in anticipated savings from a mandatory personal leave program pursuant to which certain State employees will have their take-home pay reduced by the equivalent of eight hours of pay each month during fiscal year 2010-11. Such employees would be credited with a corresponding amount of personal leave hours.

- *CalWORKs.* $1.2 billion in anticipated savings through the elimination of the CalWORKs program. Combined with other CalWORKs reductions set forth in the Proposed 2010-11 Budget, total savings are assumed to be $2.5 billion. The LAO recommends the rejection of this proposal, principally on grounds that the State would forego significant amounts of federal funding tied to the CalWORKs program, and that its elimination would shift the cost of providing services to needy families to counties.

- *Medi-Cal.* Approximately $900 million in savings from a variety of changes to the Medi-Cal program, including: (i) enrolling seniors and persons with disabilities in managed care; (ii) imposing new copayment requirements for various services, hospital stays and emergency room visits ; (iii) limiting physician and clinic visits to ten per year; and (iv) freezing hospital rates. The May Revision assumes the receipt of federal approval of these reductions. The May Revision also largely eliminates the Drug Medi-Cal program, a substance abuse program partly funded by the federal government.

- *Health.* $602 million in purported savings by allowing counties to provide no more than the minimum range of mental health services required by the federal government for participation in Medicaid. The May Revision has also removed the Proposition 63 ballot measure included in the Proposed 2010-11 Budget.

- *In-Home Supportive Services.* With a majority of prior In-Home Supportive Services ("IHSS") reductions blocked by court decisions, the May Revision proposes $750 million in savings to be achieved through cost-containment measures developed in consultation with stakeholders. For fiscal year 2010-11, the net benefit to the State general fund is projected to be $637 million after factoring in the receipt of federal matching funds under the American Reinvestment and Recovery Act.

- *Corrections/Rehabilitation*. $244 million in anticipated savings by requiring that certain non-serious, non-violent, non-sex offenders convicted of specified felonies, and who receive a sentence of three years or less, serve such sentences in county jails rather than state prisons.

- *Federal Funding.* As mentioned above, the State has already received federal Medicaid matching funds amounting to approximately $680 million. The May Revision assumes the receipt of an additional $3.4 billion in federal aid, with approximately half coming from the congressional extension of the FMAP program and other federal economic stimulus funds. The LAO notes that this amount is significantly lower than the amount of federal funds assumed by the Proposed 2010-11 Budget, and, accordingly, no "trigger" list of alternative proposals is included in the May Revision.

- *Other Measures*. $1.6 billion of one-time budget relief from the use of special fund monies for State general fund purposes. Also, the May Revision assumes approximately $200 million in savings through the use of federal retiree reinsurance funds to reduce costs associated with the PERS program.

The LAO continues to believe that the State faces an ongoing annual General Fund budget gap of around $20 billion through at least fiscal year 2014-15. The LAO calculates these ongoing shortfalls will range between $4 billion and $7 billion through fiscal year 2014-15 even if all of the Governor's recommendations in the May Revision are implemented.

Additional information regarding the Proposed 2010-11 Budget and the May Revision may be obtained from the LAO at www.lao.ca.gov.

Lack of Fiscal Year 2010-11 State Budget; Future Actions. The State legislature has missed the June 2010 deadline for submitting a budget to the Governor. Currently no State budget has been enacted for fiscal year 2010-2011, and the Districts cannot predict when such a budget will be enacted. Continued delays in the enactment of such State budget for fiscal year 2010-11 could adversely impact the Districts and result in delays of expected State educational funding. Further, the Districts cannot predict what actions will be taken in the future by the State Legislature and the Governor to address the existing budgetary deficit, changing State revenues and expenditures or the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the Districts will have no control. Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State's ability to fund schools and community colleges. Continued State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the Districts.

Ad Valorem **Property Taxation**

Each District uses the services of the appropriate county for the assessment and collection of *ad valorem* taxes. Taxes are levied for each fiscal year on taxable real and personal property which is situated in the respective county as of the preceding January 1. For assessment and collection purposes, property is classified either as "secured" or "unsecured," and is listed accordingly on separate parts of the assessment roll. State assessed property and real property having a tax lien which is sufficient, in the opinion of the respective County Assessor, to secure payment of the taxes are placed on the "secured roll." Other property is assessed on the "unsecured roll."

Property taxes on the secured roll are due in two installments, on November 1 and April 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a 10 percent penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are delinquent is sold to the State on or about June 30 of the fiscal year. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquency penalty, plus a redemption of one and one-half percent per month to the time of redemption. If taxes are unpaid for a period of five years or more, the property is subject to sale by the respective County Treasurer and Tax Collector.

Property taxes on the unsecured roll are due as of the January 1 lien date and become delinquent if unpaid on August 31. A ten percent penalty attaches to delinquent taxes on property on the unsecured roll, and an additional penalty of one and one-half percent per month begins to accrue beginning November 1 of the fiscal year. Each county has four methods of collecting unsecured personal property taxes: (1) bringing a civil action against the taxpayer; (2) filing a certificate in the office of the county clerk specifying certain property of the taxpayer; (3) filing a certificate of delinquency for recordation in the respective County Recorder's office in order to obtain a lien on certain property of the taxpayer; and (4) seizure and sale of personal property, improvements or possessory interests belonging to the taxpayer.

For information regarding the assessed valuation of taxable property with each District, see "APPENDIX A – FINANCIAL AND DEMOGRAPHIC INFORMATION FOR MIRACOSTA COMMUNITY COLLEGE DISTRICT – Assessed Valuation," "APPENDIX C – FINANCIAL AND DEMOGRAPHIC INFORMATION FOR PALOMAR COMMUNITY COLLEGE DISTRICT – Assessed Valuation," and "APPENDIX E – FINANCIAL AND DEMOGRAPHIC INFORMATION FOR SOUTHWESTERN COMMUNITY COLLEGE DISTRICT – Assessed Valuation," hereto.

Alternative Method of the Apportionment - Teeter Plan

The boards of supervisors of the County approved the implementation of the Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the "Teeter Plan"), as provided for in Section 4701 *et seq.* of the California Revenue and Taxation Code. Under the Teeter Plan, the County apportions secured property taxes on an accrual basis when due (irrespective of actual collections) to its local political subdivisions, including the Districts, for which the County acts as the tax-levying or tax-collecting agency.

Pursuant to the Teeter Plan, each entity levying property taxes in the County may draw on the amount of uncollected taxes and assessments credited to its fund, in the same manner as if the amount credited had been collected. Under the Teeter Plan, each county establishes a tax losses reserve fund and a tax resources account.

The County is responsible for determining the amount of the *ad valorem* tax levy upon each parcel in the Districts that lies within such county, which is entered onto the secured real property tax roll for such county. Upon completion of the secured real property tax roll, each County Auditor determines the total amount of taxes and assessments actually extended on the roll for each fund's credit. Such monies may thereafter be drawn against by the taxing agency in the same manner as if the amount credited had been collected. The County determines which monies in the County treasury (including those credited to the tax losses reserve fund) shall be available to be drawn on to the extent of the amount of uncollected taxes credited to each fund for which a levy has been included. When amounts are received on the secured tax roll for the current year, or for redemption of tax-defaulted property, Teeter Plan monies are distributed to the apportioned tax resources accounts. The tax losses reserve fund is used exclusively to cover losses occurring in the amount of tax liens as a result of sales of tax-defaulted property. Monies in this fund are derived from several sources. While amounts collected as costs are distributed to the county's general fund, delinquent penalty collections are distributed to the tax losses reserve fund.

When tax-defaulted property is sold, the taxes and assessments which constitute the amount required to redeem the property are prorated between apportioned (Teeter) levies and unapportioned (or non-Teeter) levies. When the tax-defaulted property is sold, the taxes and assessments which constitute the amounts required to redeem the property are prorated between apportioned (Teeter) levies and unapportioned (or non-Teeter) levies. The pro rata share for apportioned levies is prorated between tax levies and assessment levies and then distributed to the applicable funds.

If the tax losses reserve fund exceeds three percent of the total taxes and assessments levied on the secured roll for that year, the amounts coming in after it reaches three percent are credited to the county's general fund. Upon adoption of a resolution by the board of supervisors of the County by September 1 of any fiscal year, the three percent tax losses reserve fund threshold may be reduced to 50% of the total delinquent taxes and assessments for the previous year.

The Teeter Plan will remain in effect unless the board of supervisors of a particular county orders its discontinuance or unless, prior to the commencement of any fiscal year of the County (which commences July 1), the board of supervisors shall receive a petition for its discontinuance joined in by resolutions adopted by two-thirds of the participating revenue districts in the County, in which event the board of supervisors will order discontinuance of the Teeter Plan effective at the commencement of the subsequent fiscal year.

The board of supervisors may, by resolution adopted not later than July 15 of the fiscal year for which it is to apply after holding a public hearing on the matter, discontinue the procedures under the

Teeter Plan with respect to any tax levying agency or assessment levying agency in the county if the rate of secure tax delinquency in that agency in any year exceeds three percent of the total of all taxes and assessments levied on the secured rolls for that agency.

In the event that the Teeter Plan were terminated, the amount of the levy of *ad valorem* property taxes in each applicable District would depend upon the collections of the *ad valorem* property taxes and delinquency rates experienced with respect to the parcels within such applicable District.

So long as the Teeter Plan remains in effect, each applicable District's receipt of revenues with respect to the levy of *ad valorem* property taxes will not be dependent upon actual collections of the *ad valorem* property taxes by the respective counties. However, under the statute creating the Teeter Plan, the board of supervisors of a county could terminate the Teeter Plan as to a district if the delinquency rate for all *ad valorem* property taxes levied within such district in any year exceeds three percent.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Article XIIIA of the California Constitution

Article XIIIA of the State Constitution ("Article XIIIA") limits the amount of *ad valorem* taxes on real property to 1% of "full cash value" as determined by the county assessor. Article XIIIA defines "full cash value" to mean "the county assessor's valuation of real property as shown on the 1975-76 bill under 'full cash value,' or thereafter, the appraised value of real property when purchased, newly constructed or a change in ownership has occurred after the 1975 assessment," subject to exemptions in certain circumstances of property transfer or reconstruction. Determined in this manner, the full value is also referred to as the "base year value." The "full cash value" is subject to annual adjustment to reflect increases, not to exceed 2% for any year, or decreases in the consumer price index or comparable local data, or to reflect reductions in property value caused by damage, destruction or other factors.

Article XIIIA has been amended to allow for temporary reductions of assessed value in instances where the fair market value of real property falls below the base year value. Proposition 8—approved by the voters in November of 1978—provides for the enrollment of the lesser of the base year value or the market value of real property, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, removal of property, or other factors causing a similar decline. In these instances, the market value is required to be reviewed annually until the market value exceeds the base year value. Reductions in assessed value could result in a corresponding increase in the annual tax rate levied by the County to pay debt service on outstanding general obligation bonds of the Districts.

Article XIIIA requires a vote of two-thirds of the qualified electorate of a city, county, special district or other public agency to impose special taxes, while totally precluding the imposition of any additional *ad valorem*, sales or transaction tax on real property. Article XIIIA exempts from the 1% tax limitation any taxes above that level required to pay debt service (i) on any indebtedness approved by the voters prior to July 1, 1978, or (ii) as the result of an amendment approved by State voters on July 3, 1986, on any bonded indebtedness approved by two-thirds of the votes cast by the voters for the acquisition or improvement of real property on or after July 1, 1978, or (iii) bonded indebtedness incurred by a school district or community college district for the construction, reconstruction, rehabilitation or replacement of school facilities or the acquisition or lease of real property for school facilities, approved by 55% or more of the votes cast of the proposition, but only if certain accountability measurers are included in the proposition. In addition, Article XIIIA requires the approval of two-thirds of all members of the state legislature to change any state taxes for the purpose of increasing tax revenues.

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any property tax (except to pay voter-approved indebtedness). The 1% property tax is automatically levied by the county and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1979.

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

All taxable property value included in this Official Statement is shown at 100% of taxable value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

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

Unitary Property

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

The California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, nonutility companies may affect how those assets are assessed, and which local agencies are to receive the property taxes. The Authority and the Districts are unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect ownership of utility assets or the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the Districts. See "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA- Major Revenues" herein.

Article XIIIB of the California Constitution

Article XIIIB of the State Constitution ("Article XIIIB"), as subsequently amended by Propositions 98 and 111, respectively, limits the annual appropriations of the State and of any city, county, school district, authority or other political subdivision of the State to the level of appropriations of the particular governmental entity for the prior fiscal year, as adjusted for changes in the cost of living and in population and for transfers in the financial responsibility for providing services and for certain declared emergencies. As amended, Article XIIIB defines:

(a) "change in the cost of living" with respect to school districts to mean the percentage change in California per capita income from the preceding year, and

(b) "change in population" with respect to a school district to mean the percentage change in the average daily attendance of the school district from the preceding fiscal year.

For fiscal years beginning on or after December 1, 1990, the appropriations limit of each entity of government shall be the appropriations limit for the 1986/87 fiscal year adjusted for the changes made from that fiscal year pursuant to the provisions of Article XIIIB, as amended.

The appropriations of an entity of local government subject to Article XIIIB limitations include the proceeds of taxes levied by or for that entity and the proceeds of certain state subventions to that entity. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to the entity from (a) regulatory licenses, user charges and user fees (but only to the extent that these proceeds exceed the reasonable costs in providing the regulation, product or service), and (b) the investment of tax revenues.

Appropriations subject to limitation do not include (a) refunds of taxes, (b) appropriations for debt service, (c) appropriations required to comply with certain mandates of the courts or the federal government, (d) appropriations of certain special districts, (e) appropriations for all qualified capital outlay projects as defined by the legislature, (f) appropriations derived from certain fuel and vehicle taxes and (g) appropriations derived from certain taxes on tobacco products.

Article XIIIB includes a requirement that all revenues received by an entity of government other than the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be returned by a revision of tax rates or fee schedules within the next two subsequent fiscal years.

Article XIIIB also includes a requirement that fifty percent of all revenues received by the State in a fiscal year and in the fiscal year immediately following it in excess of the amount permitted to be appropriated during that fiscal year and the fiscal year immediately following it shall be transferred and allocated to the State School Fund pursuant to Section 8.5 of Article XVI of the State Constitution. See "Minimum Funding Guarantees for California Community College Districts Under Propositions 98 and 111" herein.

Article XIIIC and Article XIIID of the California Constitution

On November 5, 1996, the voters of the State of California approved Proposition 218, popularly known as the "Right to Vote on Taxes Act." Proposition 218 added to the California Constitution Articles XIIIC and XIIID, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

According to the "Title and Summary" of Proposition 218 prepared by the California Attorney General, Proposition 218 limits "the authority of local governments to impose taxes and property-related assessments, fees and charges." Among other things, Article XIIIC establishes that every tax is either a "general tax" (imposed for general governmental purposes) or a "special tax" (imposed for specific purposes), prohibits special purpose government agencies such as school districts from levying general taxes, and prohibits any local agency from imposing, extending or increasing any special tax beyond its maximum authorized rate without a two-thirds vote; and also provides that the initiative power will not be limited in matters of reducing or repealing local taxes, assessments, fees and charges. Article XIIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XIII and XIIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIIA, Section 4. Article XIIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIIC or XIIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The Districts do not impose any taxes, assessments, or property-related fees or charges which are subject to the provisions of Proposition 218. It does, however, receive a portion of the basic one percent *ad valorem* property tax levied and collected by the applicable counties pursuant to Article XIIIA of the California Constitution. The provisions of Proposition 218 may have an indirect effect on the Districts, such as by limiting or reducing the revenues otherwise available to other local governments whose boundaries encompass property located within the Districts thereby causing such local governments to reduce service levels and possibly adversely affecting the value of property within the Districts.

Proposition 39

On November 7, 2000, California voters approved an amendment (commonly known as Proposition 39) to the California Constitution. This amendment (1) allows school facilities bond measures to be approved by 55 percent (rather than two-thirds) of the voters in local elections and permits property taxes to exceed the current 1 percent limit in order to repay the bonds and (2) changes existing statutory law regarding charter school facilities. As adopted, the constitutional amendments may be changed only with another Statewide vote of the people. The local school jurisdictions affected by this proposition are K-12 school districts, community college districts, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1 percent of the value of property. Property taxes may only exceed this limit to pay for (1) any local government debts approved by the voters prior to July 1, 1978 or (2) bonds to buy or improve real property that receive two-thirds voter approval after July 1, 1978.

The 55 percent vote requirement would apply only if the local bond measure presented to the voters includes: (1) a requirement that the bond funds can be used only for construction, rehabilitation, equipping of school facilities, or the acquisition or lease of real property for school facilities; (2) a specific list of school projects to be funded and certification that the school board has evaluated safety, class size reduction, and information technology needs in developing the list; and (3) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to ensure that the bond funds have been used only for the projects listed in the measure. Legislation approved in June 2000 places certain limitations on local school bonds to be approved by 55 percent of the voters. These provisions require that the tax rate levied as the result of any single election be no more than $60 (for a unified school district), $30 (for an elementary and high school district), or $25 (for a community college district), per $100,000 of taxable property value. These requirements are not part of this proposition and can be changed with a majority vote of both houses of the Legislature and approval by the Governor.

Proposition 1A

On November 2, 2004, California voters approved Proposition 1A, which amends the State constitution to significantly reduce the State's authority over major local government revenue sources. Under Proposition 1A, the State may not (i) reduce any local sales tax rates, limit existing local government authority to levy a sales tax rate or alter the method of allocating the revenue generated by such taxes, (ii) shift property taxes from local governments to schools or community colleges, (iii) change how property tax revenues are shared among local governments without two-third approval of both houses of the State Legislature or (iv) decrease Vehicle License Fee revenues without providing local governments with equal replacement funding. Beginning, in 2008-09, the State may shift to schools and community colleges a limited amount of local government property tax revenue if certain conditions are met, including: (i) a proclamation by the Governor that the shift is needed due to a severe financial hardship of the State, and (ii) approval of the shift by the State Legislature with a two-thirds vote of both houses. Under such a shift, the State must repay local governments for their property tax losses, with interest, within three years. Proposition 1A does allow the State to approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition 1A also amends the State Constitution to require the State to suspend, beginning July 1, 2005, certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with such mandates. This provision does not apply to mandates relating to schools or community colleges or to those mandates relating to employee rights.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC and Article XIIID of the California Constitution and Propositions 47, 98 and 111 were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting revenues of the Districts or the ability of the Districts to expend revenues. The nature and impact of these measures cannot be anticipated by the Districts.

CONTINUING DISCLOSURE

Each District has covenanted for the benefit of Bond Owners to provide an Annual Report containing certain financial information and operating data relating to the applicable District, beginning with the 2009-10 fiscal year, by not later than: (i) with respect to MiraCosta and Palomar, nine months after the end of each fiscal year, and (ii) with respect to Southwestern, 270 days after the end of each fiscal year. Each District has also covenanted to provide notices of the occurrence of certain enumerated events, if deemed by such District to be material under federal securities laws. The Annual Reports and notices of material events will be filed with Municipal Securities Rulemaking Board. The information to be contained in the annual report or the notices of material events is set forth in "Appendix K – FORM OF CONTINUING DISCLOSURE CERTIFICATES." These covenants have been made in order to assist the Underwriter in complying with S.E.C. Rule 15c2-12(b)(5) (the "Rule").

Prior Continuing Disclosure Obligations

The following paragraphs summarize each District's compliance with its existing continuing disclosure undertakings within the past five fiscal years. Notwithstanding the information summarized below, all of the Districts are currently in compliance with their existing continuing disclosure undertakings.

MiraCosta. Failed to file certain portions of its required annual reports for fiscal years 2007-08 and 2008-09. A complete report was filed for these years in September 2010.

Palomar. Failed to file certain portions of its required annual reports in a timely manner for fiscal years 2004-05 through 2008-09. For fiscal years 2004-05 and 2005-06, a complete report was filed in March of 2007. For fiscal years 2006-07 through 2008-09, a complete report was filed in September of 2010.

Southwestern. Failed to file certain portions of its required annual reports in a timely manner for fiscal years 2004-05 through 2007-08. For fiscal years 2004-05 through 2007-08, a complete report was filed in October of 2009.

TAX MATTERS

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 the accuracy of certain representations and compliance with certain covenants and requirements described herein, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. In the further opinion of Bond Counsel, interest on the Bonds is exempt from State of California personal income tax. Bond Counsel notes that, with respect to corporations, interest on the 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.

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

Bond Counsel's opinion as to the exclusion from gross income of interest (and original issue discount) on the Bonds is based upon certain representations of fact and certifications made by the District and others and is subject to the condition that each District complies with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds to assure that interest (and original issue discount) on the 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 Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Districts have each covenanted to comply with all such requirements.

The amount by which a Bond Owner's original basis for determining loss on sale or exchange in 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 Bond Owner'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 Bond Owner 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. Purchasers of the Bonds should consult their own tax advisors as to the treatment, computation and collateral consequences of amortizable Bond premium.

The Internal Revenue Service (the "IRS") has initiated an expanded program for the auditing of tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. It is also possible that the market value of the Bonds might be affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Bonds or their market value.

It is possible that subsequent to the issuance of the Bonds there might be federal, state, or local statutory changes (or judicial or regulatory interpretations of federal, state, or local law) that affect the federal, state, or local tax treatment of the Bonds or the market value of the Bonds. No assurance can be given that subsequent to the issuance of the Bonds such changes or interpretations will not occur.

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 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 effect on the exclusion from gross income of interest (and original issue discount) on the Bonds for federal income tax purposes with respect to any Bond 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 interest (and original issue discount) on the Bonds is excluded from gross income for federal income tax purposes provided that the District continues to comply with certain requirements of the Code, the ownership of the Bonds and the accrual or receipt of interest (and original issue discount) with respect to the 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 Bonds, all potential purchasers should consult their tax advisors with respect to collateral tax consequences relating to the Bonds.

A copy of the proposed form of opinion of Bond Counsel is attached hereto as Appendix I.

CERTAIN LEGAL MATTERS

The Bonds will be offered when, as, and if issued and received by the Underwriter, subject to the approval as to their legality by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority and each District by Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California and for the Underwriter by Fulbright & Jaworski, L.L.P., Los Angeles, California.

ABSENCE OF LITIGATION

There is no litigation now pending or threatened to restrain or enjoin the issuance and delivery of the Bonds, or the execution and delivery by the Authority of the Indenture, the Site Leases or the Leases or in any way questioning or affecting the validity of the Authority proceedings for the authorization, sale, issuance or delivery of the Bonds.

The Authority is not aware of any litigation pending or threatened questioning the existence or powers of the Authority or the ability of the Districts to make the Lease Payments under their respective Leases.

Although each District is subject to a number of lawsuits in the ordinary conduct of its affairs, in the opinion of each District, there are no claims or actions, threatened or pending which, if determined against the District, either individually or in the aggregate, would have a material adverse effect on the financial condition of the District and thereby affect the ability of the District to make its Lease Payments with respect to the Bonds.

RATING

Standard & Poor's Rating Services ("S&P") has assigned a rating of "A+" to the Bonds. Certain information was supplied by the Districts and the Authority to such rating agency to be considered in evaluating the Bonds. Such rating reflects only the views of the rating agency and explanations of the significance of such rating and any ratings on any of the outstanding obligations of the Districts and the Authority may be obtained only from the rating agency at the following address: Standard & Poor's, a Division of McGraw-Hill Companies, 55 Water Street, 45th Floor, New York, NY 10041. There is no assurance that such rating will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if in the judgment of such rating agency, circumstances so warrant. Except as set forth in the Continuing Disclosure Certificates, the Authority, the Districts and the Trustee undertake no responsibility either to notify the Owners of the Bonds of any revision or withdrawal of the rating or to oppose any such revision or withdrawal. Any such downward revision or withdrawal of such rating may have an adverse affect on the market price of the Bonds.

UNDERWRITING

The Bonds are being purchased by RBC Capital Markets Corporation (the "Underwriter"). The Underwriter has agreed to purchase the Bonds at a price of $8,474,070.90 (reflecting the aggregate principal amount of the Bonds of $8,255,000.00, plus original issue premium on the Bonds of $289,238.40, less Underwriter's discount of $70,167.50. The Purchase Contract 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 the Purchase Contract.

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MISCELLANEOUS

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

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

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

CALIFORNIA COMMUNITY COLLEGE FINANCING AUTHORITY

By: /s/ Scott Lay
Executive Director

APPROVED:

MIRACOSTA COMMUNITY COLLEGE DISTRICT

By: /s/ James E. Austin
Vice President,
Business/Administrative Services

APPROVED:

PALOMAR COMMUNITY COLLEGE DISTRICT

By: /s/ Dr. Bonnie Ann Dowd
Assistant Superintendent/Vice President,
Finance and Administrative Services

APPROVED:

SOUTHWESTERN COMMUNITY COLLEGE DISTRICT

By: /s/ Nicolas Alioto
Vice President for
Business & Financial Affairs

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APPENDIX A

FINANCIAL AND DEMOGRAPHIC INFORMATION FOR MIRACOSTA COMMUNITY COLLEGE DISTRICT

Introduction

Miracosta Community College District (the "District") was established in 1934 serves an area of about 15 square miles in northern San Diego County (the "County"). The District includes the cities of Carlsbad, Del Mar, Encinitas, Oceanside and Solana Beach, as well as adjacent unincorporated areas of the County. The District operates three campuses; the main campus, MiraCosta College, is located on a 121-acre site in the city of Oceanside. The District also operates the 42-acre San Elijo campus in the city of Cardiff and an 7.6 acre Community Learning Center in Oceanside. The District had a fiscal year 2009-10 assessed valuation of $78,800,671,137.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of subsequent audited financial reports of the District may be obtained by contacting: MiraCosta Community College District, Attention: Vice President, Business/Administrative Services, One Barnard Drive, Oceanside, California 92056.

Capitalized terms used by not otherwise defined in this Appendix shall have the meanings assigned to such terms in the front part of this Official Statement.

Administration

The District is governed by a seven-member Board of Trustees, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between three and four available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

Board Member	Office	Term Expires
Gregory M. Post	President	November 2010
Charles Adams	Vice President	November 2010
Gloria Carranza	Member	November 2012
William C. Fischer	Member	November 2010
Rodolfo Fernandez	Member	November 2010
George McNeil	Member	November 2012
Jacqueline Simon	Member	November 2012

Brief biographies of the President and Vice President, Administrative Services follow:

Francisco C. Rodriguez, Ph.D., Superintendent/President. Dr. Rodriguez was appointed Superintendent/President of the District on January 20, 2009. Dr. Rodriguez began his career in 1997 at Yuba Community College District, where he served in the capacities of Executive Dean and Associate Dean of Instruction and Student Services of Woodland College. In 2003, he was appointed President of Cosumnes River College in Sacramento and served in that capacity for six years. Prior to beginning his community college career, Dr. Rodriguez worked for 12 years in student affairs at University of California Davis serving in various capacities, including student outreach and undergraduate admissions, student leadership programs and activities, and diversity education. Dr. Rodriguez earned a bachelor of arts degree in Chicano Studies and a master of arts degree in community development from the University of California, Davis, and a doctorate degree in education with an emphasis in community college leadership from Oregon State University.

James E. Austin, Vice President, Business/Administrative Services. Mr. Austin has served as the Vice President, Business/Administrative Services of the District since February of 2007. Previously, Mr. Austin worked for the California Community Colleges Chancellor's Office as Vice Chancellor of

Fiscal Policy and Facilities. Mr. Austin's prior experience also includes serving Grossmont-Cuyamaca Community College District as Vice Chancellor, Business Services, and Los Angeles Community College District as Vice President of Administration for Los Angeles Southwest College and College Business Manager for Los Angeles Mission College. Mr. Austin received a bachelor of science degree in political science and economics from the University of Utah and a master of business administration degree from the University of Utah.

District Growth

The following table provides an six-year history of growth in full time equivalent students for the District.

FULL TIME EQUIVALENT STUDENTS
Fiscal Years 2005-06 through 2010-11
Miracosta Community College District

School Year	FTES	Annual Change	% Change
2005-06	8,865	--	--
2006-07	8,564	(301)	(3.40)%
2007-08	8,827	263	3.07
2008-09	9,742	915	10.37
2009-10	10,179	437	4.49
2010-11[1]	10,207	28	0.27

[1] Projected.
Source: Miracosta Community College District.

Labor Relations

The District currently employs 172 certificated employees, 256 classified employees and 29 managerial employees. The District also employs 518 part-time faculty and employees.

Associate faculty are represented by one bargaining unit: the MiraCosta College Academic Associate Faculty CCA/CTA/NEA (the "Academic Faculty Bargaining Unit"). The current labor contract between the District and the Academic Faculty Bargaining Unit expires on June 30, 2011.

Working conditions for all other District employees are not determined by formal labor contracts with bargaining units. Instead, working conditions are set by policies and procedures adopted by the District's Board of Trustees, which policies and procedures are developed through "meet and confer" arrangements with the following employee groups: (1) Classified Employees Senate ("Classified Senate"), (2) MiraCosta Community College District Academic Administrators Association (the "Academic Administrators Association"), and (3) MiraCosta Community College District Classified Administrators Association (the "Classified Administrators Association"). More recently, the Board, as of June 15, 2010, has adopted a Working Conditions Manual applicable to employees belonging to the Academic Administrators Association. This manual establishes certain policies and procedures in addition to those adopted by the District Board. Similar manuals are being developed for employees belonging to the Classified Senate and the Classified Administrators Association.

Retirement Plans

The District participates in the State of California Teachers' Retirement System ("STRS"). The plan includes basically all certificated employees. The District's contribution to STRS was $2,463,361 in fiscal year 2008-09, $2,858,683 in fiscal year 2009-10, and is budgeted to be $2,867,957 in fiscal year 2010-11. The District also participates in the State of California Public Employees' Retirement System ("PERS"). This plan covers basically all regular classified personnel who are employed four or more hours per day. The District's contribution to PERS was $1,849,972 in fiscal year 2008-09, $2,155,474 in fiscal year 2009-10, and is budgeted to be $2,204,271 in fiscal year 2010-11.

The District is currently required by statute to contribute 8.25% of eligible salary expenditures to STRS, while participants contribute 8% of their respective salaries. STRS has a substantial statewide unfunded liability. Since this liability has not been broken down by each school or community college district, it is impossible to determine the District's share. The District was required to contribute to PERS at an actuarially determined rate, which is 10.707% of eligible salary expenditures for fiscal year 2010-11, while participants contribute 7% of their respective salaries.

Other Post-Employment Benefits

The District provides certain health benefits to retired District employees in accordance with negotiated labor contracts (the "Benefits"). As of June 30, 2009, the District had 58 retirees receiving benefits and a total of 436 active participants, of which 359 are not yet eligible to receive benefits. During fiscal year ending June 30, 2010, the District realized total expenditures of $885,773 for the Benefits.

The District has completed an actuarial study defining its accrued liability in connection with the Benefits. The actuarial accrued liability ("AAL") for the Benefits was estimated to be $26,074,844 as of July 1, 2007. The study also concluded that the annual required contribution ("ARC") was $3,270,378. The ARC is the annual amount that would be necessary to fund the Benefits in accordance with the Governmental Accounting Standards Board's Statements No. 43 and 45.

Insurance

The District participates in a joint powers agreement with the San Diego County Office of Education Risk Management Joint Powers Authority (the "JPA"), which arranges for and provides workers' compensation, liability, and property insurance for its member school districts in southern California. The District pays premiums commensurate with the levels of coverage requested. The relationships between the District and the JPAs are such that the JPAs are not component units of the District for financial reporting purposes.

Assessed Valuation

The following table sets forth the five-year history of assessed valuations in the District.

ASSESSED VALUATIONS
Fiscal Year 2005-06 through 2009-10
Miracosta Community College District

Fiscal Year	Local Secured	Utility	Unsecured	Total
2005-06	$59,420,901,561	$254,862,362	$1,398,879,388	$61,074,643,311
2006-07	66,199,757,074	179,472,933	1,841,086,393	68,220,316,400
2007-08	72,785,659,254	143,855,095	1,617,842,538	74,547,356,887
2008-09	77,322,688,483	129,025,804	1,648,403,314	79,100,117,601
2009-10	76,959,040,056	122,346,018	1,719,285,063	78,800,671,137

Source: California Municipal Statistics, Inc.

Secured Tax Charges and Delinquencies

The annual secured tax levies and delinquencies for fiscal years 2004-05 through 2008-09 are shown below.

SECURED TAX CHARGES AND DELINQUENCIES
Fiscal Years 2004-05 Through 2008-09
MiraCosta Community College District

	Secured Tax Charge(1)	Amt. Del. June 30(2)	% Del. June 30(2)
2004-05	$48,955,266.90	--	--
2005-06	55,285,707.84	--	--
2006-07	61,978,743.45	--	--
2007-08	68,032,252.64	--	--
2008-09	74,329,286.45	--	--

(1) 1% General Fund apportionment. Excludes redevelopment agency impounds.
(2) San Diego County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the county retaining all penalties and interest. See "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Alternative Method of Tax Apportionment – Teeter Plan" in the front part of this Official Statement.
Source: California Municipal Statistics, Inc.

Principal Taxpayers

The following table lists the 20 largest local secured taxpayers in the District in terms of their 2009-10 secured assessed valuations.

LARGEST 2009-10 SECURED TAXPAYERS
MiraCosta Community College District

	Property Owner	Primary Land Use	2009-10 Assessed Valuation	% of Total[1]
1.	Genentech Inc.	Industrial	$493,663,172	0.64%
2.	Kilroy Realty LP	Office Building	390,820,395	0.51
3.	Arden Realty LP	Office Building	329,973,258	0.43
4.	The Irvine Conpany	Apartments	260,763,334	0.34
5.	Grand Del Mar Resort LP	Hotel	260,057,264	0.34
6.	Continuing Life Communities LLC	Convalescent Home	251,718,537	0.33
7.	KSL La Costa Resort Corp.	Hotel	226,778,040	0.29
8.	Aviara Resort Associates SPE LLC	Hotel	216,600,922	0.28
9.	OC/SD Holdings LLC	Apartments	194,929,040	0.25
10.	Union Investment Real Estate Aktiengesel	Office Building	153,425,000	0.20
11.	PK II El Camino North LP	Shopping Center	116,016,483	0.15
12.	Ruby's Diner	Office Building	114,710,751	0.15
13.	TREA Pacific Plaza LLC	Office Building	109,100,000	0.14
14.	Seaview PFG LLC	Office Building	104,598,581	0.14
15.	Wateridge VA LLC	Commercial	102,063,240	0.13
16.	Cognac Del Mar Owner I & II LLC	Office Building	101,256,218	0.13
17.	Wyndham Vacation Resorts Inc.	Timeshare/Resort	101,098,010	0.13
18.	DMH Campus Investors LLC	Office Building	100,470,000	0.13
19.	Callaway Golf Co.	Industrial	99,591,497	0.13
20.	Grand Pacific Palisades LP	Timeshare/Resort	95,986,981	0.12
			$3,823,620,723	4.97%

[1] 2009-10 local secured assessed valuation: $76,959,040,056.
Source: California Municipal Statistics, Inc.

Tax Rates

The table below demonstrates the total *ad valorem* tax rates levied by all taxing entities in three typical tax rate areas (each, a "TRA") during the five-year period from 2005-06 through 2009-10.

TYPICAL TAX RATES
MiraCosta Community College District

	2005-06	2006-07	2007-08	2008-09	2009-10
Within City of Oceanside TRA 7-000 – 2009-10 Assessed Valuation: $3,297,766,027					
General Tax Rate	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
Oceanside Unified School District	.055480	.065410	.058350	.058350	.063860
Metropolitan Water District	.005200	.004700	.004500	.004300	.004300
Total Tax Rate	1.060680%	1.070110%	1.062850%	1.062650%	1.068160%
Within City of San Diego TRA 8-119 – 2009-10 Assessed Valuation: $8,330,709,561					
General Tax Rate	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
City of San Diego	.006450	.006240	.006190	.006080	.006130
Metropolitan Water District	.005200	.004700	.004500	.004300	.004300
Total Tax Rate	1.011650%	1.010940%	1.010690%	1.010380%	1.010430%
Within City of Carlsbad TRA 9-000 – 2009-10 Assessed Valuation: $3,916,151,659					
General Tax Rate	1.000000%	1.000000%	1.000000%	1.000000%	1.000000%
Carlsbad Unified School District	.015470	.013760	.037370	.034980	.036490
Metropolitan Water District	.005200	.004700	.004500	.004300	.004300
Total Tax Rate	1.020670%	1.018460%	1.041870%	1.039280%	1.040790%

Source: California Municipal Statistics, Inc.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California Community College Budget and Accounting Manual. This manual, according to Section 84030 of the California Education Code, is to be followed by all California community college districts. The Governmental Accounting Standards Board ("GASB") has released (i) Statement No. 34, which makes changes in the annual financial statements for all governmental agencies in the United States, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted, and (ii) Statement No. 35, which makes changes in the required content and format of annual financial statements for public colleges and universities. The revised reporting format provides a comprehensive entity-wide perspective of the District's assets, liabilities, and cash flows and replaces the fund-group perspective previously required. These requirements became effective on June 15, 2002 for the District, as well as for any other governmental agency with annual revenues of between $10 million and $100 million. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred. For audited general fund figures in the revised reporting format described above, see "– Comparative Financial Statements" herein.

The following table shows the District's general fund adopted budgets for fiscal years 2007-08 through 2009-10, tentative budget for fiscal year 2010-11, and the District's unaudited actuals for fiscal years 2007-08 through 2009-10.

REVENUES	Adopted Budget 2007-08	Unaudited Actuals 2007-08[1]	Adopted Budget 2008-09	Unaudited Actuals 2008-09[1]	Adopted Budget 2009-10	Unaudited Actuals 2009-10	Tentative Budget 2010-11
Federal Revenues	$1,003,783.00	$1,062,460.00	$1,303,225.00	$1,090,110.00	$1,756,624.00	$1,961,770.00	$1,158,564.00
State Revenues	8,927,446.00	8,492,095.00	8,818,819.00	8,372,036.00	7,743,077.00	7,060,497.00	6,276,027.00
Other Local Revenues	81,115,053.00	81,888,454.00	84,823,484.00	85,072,985.00	84,532,827.00	83,993,668.00	85,755,004.00
Total Revenues	91,046,282.00	91,443,009.00	94,945,528.00	94,535,131.00	94,032,528.00	93,015,935.00	93,189,595.00
EXPENDITURES							
Academic Salaries	32,260,186.00	33,021,122.00	34,890,946.00	36,170,685.00	38,697,360.00	38,606,720.00	38,569,913.00
Classified Salaries	21,533,921.00	20,889,210.00	22,326,289.00	22,215,600.00	23,124,750.00	22,999,605.00	23,644,983.00
Employees Benefits	15,896,487.00	13,413,122.00	20,799,692.00	17,133,565.00	20,886,297.00	20,346,203.00	19,969,117.00
Supplies & Materials	1,949,352.00	1,651,314.00	2,340,667.00	1,864,532.00	2,320,784.00	1,804,761.00	2,259,417.00
Other Operating Expenses & Services	8,940,427.00	6,680,292.00	9,548,205.00	7,272,474.00	8,473,020.00	7,910,756.00	8,070,371.00
Capital Outlay	3,855,155.00	2,191,951.00	3,732,463.00	2,264,595.00	4,316,551.00	3,051,416.00	2,722,842.00
Total Expenditures	84,435,528.00	77,847,011.00	93,638,262.00	86,921,451.00	97,818,762.00	94,719,461.00	95,236,643.00
EXCESS(DEFICIENCY) OF REVENUES OVER EXPENDITURES	6,610,754.00	13,595,998.00	1,307,266.00	7,613,680.00	(3,786,234.00)	(1,703,526.00)	(2,047,048.00)
OTHER FINANCING SOURCES(USES)							
Other Financing Sources	203,000.00	182,467.00	210,000.00	204,001.00	204,500.00	391,612.00	--
Other Outgo	(6,605,342.00)	(7,823,038.00)	(614,076.00)	(6,254,321.00)	(4,682,102.00)	(4,474,689.00)	(2,984,356.00)
Total Other Financing Uses	(6,402,342.00)	(7,640,571.00)	(404,076.00)	(6,050,320.00)	(4,477,602.00)	(4,083,077.00)	(2,984,356.00)
NET INCREASE/(DECREASE) IN FUND BALANCE	208,412.00	5,955,427.00	903,190.00	1,563,360.00	(8,263,836.00)	(5,786,603.00)	(5,031,404.00)
BEGINNING FUND BALANCE	17,875,354.00	18,200,354.00	24,155,781.00	24,155,781.00	25,719,141.00	25,719,141.00	19,932,538.00
ENDING FUND BALANCE	$18,083,766.00	$24,155,781.00	$25,058,971.00	$25,719,141.00	$17,455,305.00	$19,932,538.00	$14,901,134.00

[1] Unaudited general fund results for fiscal years 2007-08 and 2008-09 in object-oriented format provided for comparison. For audited results of these years in revised reporting format, see "– Comparative Financial Statements" herein.

Source: MiraCosta Community College District.

Comparative Financial Statements

The table on the following page shows audited financial information for the District for fiscal years 2005-06 through 2008-09.

AUDITED STATEMENT OF TOTAL REVENUES AND EXPENDITURES AND CHANGES IN NET ASSETS – GENERAL FUND
Fiscal Years 2005-06 through 2008-09
Miracosta Community College District

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09
OPERATING REVENUES				
Tuition and Fees (gross)	$8,365,987	$7,952,707	$7,990,144	$8,465,283
Less Scholarship Discounts and Allowances	(1,287,335)	(1,103,494)	(921,376)	(1,109,086)
Net Tuition and Fees	7,078,652	6,849,213	7,068,768	7,356,197
Grant and Contracts, noncapital:				
Federal	3,444,140	3,023,660	3,121,232	--
State	5,559,414	7,374,563	6,602,739	--
Local	304,057	500,811	--	--
Auxiliary Enterprise Sales and Charges	410,353	423,730	374,276	395,509
TOTAL OPERATING REVENUES	16,796,616	18,171,977	17,167,015	7,751,706
OPERATING EXPENSES				
Salaries	44,817,192	49,140,886	53,924,761	58,747,235
Employee Benefits	11,679,017	12,133,755	14,709,303	18,598,017
Supplies, Materials and Other Operating Expenses and Services	8,826,180	11,303,405	11,676,528	10,271,105
Equipment Maintenance and Repairs	--	--	3,883,933	3,415,234
Financial Aid	2,574,247	2,548,035	--	2,559,085
Utilities	1,372,750	1,170,773	--	--
Depreciation	2,136,614	2,241,106	3,124,388	2,795,402
TOTAL OPERATING EXPENSES	71,406,000	78,537,960	87,318,913	96,386,078
OPERATING LOSS	(54,609,384)	(60,365,983)	(70,151,898)	(88,634,372)
NON-OPERATING REVENUES (EXPENSES)				
State Apportionments, noncapital	201,800	773,639	38,595	--
Local Property Taxes	60,339,546	69,871,054	73,434,706	76,201,576
State Taxes and Other Revenues	1,161,407	1,937,744	1,850,761	1,806,851
Federal Grants and Contracts, Noncapital	--	--	--	3,618,248
State Grants and Contracts, Noncapital	--	--	--	6,565,185
Investment Income – noncapital	746,052	1,074,586	1,566,038	880,063
Interest Expense	(217,456)	(272,554)	(259,399)	(262,646)
Investment Income on Capital Asset Related Debt, Net	--	--	40,438	6,811
Loss on Disposal of Capital Assets	--	--	(483,110)	(7,960)
Transfer from Agency Fund	--	--	74,338	--
Transfer to Agency Fund	--	--	(5,000)	(5,000)
Net Interfund Transfers to Fiduciary Funds	(2,370,000)	(2,104,266)	--	--
Other nonoperating revenues-grants/gifts – noncapital	50,151	56,859	1,618,936	2,304,146
TOTAL NON-OPERATING REVENUES (EXPENSES)	59,911,500	71,337,062	77,876,303	91,107,274
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	5,302,116	10,971,079	7,724,405	2,472,902
OTHER REVENUES, EXPENSES, GAINS AND LOSSES				
State apportionments – capital	5,975,935	9,839,755	1,196,031	7,559,728
Other grants and contributions – capital	29,001	32,109	--	--
Investment income – capital	242,770	491,468	--	--
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	6,247,706	10,363,332	1,196,031	7,559,728
INCREASE IN NET ASSETS	11,549,822	21,334,411	8,920,436	10,032,630
NET ASSETS, BEGINNING OF YEAR	70,440,964	81,990,786	103,325,197	112,245,633
NET ASSETS, END OF YEAR	$81,990,786	$103,325,197	$112,245,633	$122,278,263

Source: Miracosta Community College District.

District Debt Structure

Short-Term Debt. On August 11, 2010 the District issued $7,000,000 of Tax and Revenue Anticipation Notes ("TRANs") maturing on June 30, 2011, with yield of 0.85% to provide for anticipated cash flow deficits from operations. The TRANs are a general obligation of the District, and are payable from revenues and cash receipts to be received or accrued by the District during the fiscal year 2010-11.

Long-Term Debt. A schedule of changes in long-term debt for the fiscal year ended June 30, 2009 is shown below:

	Beginning Balance	Additions	Payments/ Reductions	Ending Balance
Bonds and Notes Payable				
Lease Revenue Bonds	$4,420,000	--	$275,000	$3,965,000
Total Bond and Notes Payable	4,420,000	--	275,000	3,965,000
Other Liabilities				
Compensated Absences	$1,913,452	$248,565	$10,510	$2,151,507
Capital Leases	1,818,912	--	181,207	1,637,705
Net OPEB Obligation	--	3,270,378	3,202,060	68,318
Total Other Liabilities	3,732,364	3,518,943	3,393,777	3,857,530
Total Long-term Obligations	$7,972,364	$3,518,943	$3,668,777	$7,822,530

Lease Revenue Bonds. The 1999 Authority Bonds allocable to the District are payable from lease payments made pursuant to a lease/purchase agreement executed in connection with the issuance of the 1999 Authority Bonds. The following table lists a schedule of such future lease payments payable by the District.

Year Ending (October 1)	Principal	Interest	Total
2010	$300,000.00	$168,230.00	$468,230.00
2011	310,000.00	155,630.00	465,630.00
2012	325,000.00	142,300.00	467,300.00
2013	340,000.00	128,000.00	468,000.00
2014	355,000.00	111,000.00	466,000.00
2015	375,000.00	94,581.25	469,581.25
2016	390,000.00	77,237.50	467,237.50
2017	410,000.00	59,200.00	469,200.00
2018	425,000.00	40,237.50	465,237.50
2019	445,000.00	20,581.25	465,581.25
Total	$3,675,000.00	$996,997.50	$4,671,997.50

The District is expected to make the scheduled lease payment necessary to pay its portion of the October 1, 2010 debt service payment on the 1999 Authority Bonds. Following this payment, and following the deposit and applications of proceeds of the Bonds as set forth in "THE PROJECTS AND REFUNDING PLAN – MiraCosta" in the front of part of this Official Statement, the obligation of the District to make lease payments with respect to the 1999 Authority Bonds will cease.

Capital Leases. The District has entered into various lease-purchase agreements for equipment under agreements which pass for title to pass to the District upon expiration of the lease period. Future payments on these capital leases are set forth below.

Year Ending June 30	Total
2010	$256,733
2011	256,733
2012	256,733
2013	256,733
2014	256,733
2015-2017	641,833
Total	$1,925,499

Statement of Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc., effective as of September 1, 2010 for debt issued as of August 27, 2010. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

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MIRACOSTA COMMUNITY COLLEGE DISTRICT
Statement of Direct and Overlapping Bonded Debt

2009-10 Assessed Valuation:	$78,800,671,137
Redevelopment Incremental Valuation:	(1,531,590,580)
Adjusted Assessed Valuation:	$77,269,080,557

OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 9/1/10
Metropolitan Water District	4.269%	$11,279,552
Carlsbad Unified School District	99.956	127,530,380
Oceanside Unified School District	100.000	193,410,045
San Diego Unified School District	0.638	10,851,810
Encinitas Union School District	99.979	14,039,605
Rancho Santa Fe School District	100.000	38,855,818
Other School Districts	Various	12,270,548
City of Carlsbad	100.000	640,000
City of San Diego	10.071	225,590
Palomar Pomerado Healthcare District	0.961	4,003,510
Community Facilities Districts	Various	342,154,516
City 1915 Act Bonds	Various	70,407,329
TOTAL OVERLAPPING TAX AND ASSESSMENT DEBT		$825,668,703
DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
San Diego County General Fund Obligations	22.192%	$90,507,853
San Diego County Pension Obligations	22.192	182,038,348
San Diego County Superintendent of Schools General Fund Obligations	22.192	4,673,080
Mira Costa Community College District General Fund Obligations	**100.000**	**3,675,000**(1)
Carlsbad Unified School District Certificates of Participation	99.956	50,687,688
San Marcos Unified School District Certificates of Participation	5.318	2,998,731
San Dieguito Union High School District Certificates of Participation	99.784	12,986,888
Rancho Santa Fe School District Certificates of Participation	100.000	6,750,000
Other School District General Fund Obligations	Various	1,440,717
City of Encinitas Certificates of Participation	100.000	44,450,000
City of Oceanside General Fund and Pension Obligations	71.927	59,796,511
City of San Diego General Fund Obligations	10.071	52,452,286
City of Solana Beach Certificates of Participation	100.000	1,875,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$514,332,102
COMBINED TOTAL DEBT		$1,340,000,805(2)

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

Ratios to 2009-10 Assessed Valuation:
Total Overlapping Tax and Assessment Debt.. 1.05%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($3,675,000) 0.005%
Combined Total Debt.. 1.73%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: $0

Source: California Municipal Statistics, Inc

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APPENDIX B

FISCAL YEAR 2008-09 AUDITED FINANCIAL STATEMENTS OF MIRACOSTA COMMUNITY COLLEGE DISTRICT

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MiraCosta Community College District

Annual Financial Report

June 30, 2009

MIRACOSTA COMMUNITY COLLEGE DISTRICT

TABLE OF CONTENTS
JUNE 30, 2009

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Trustees
MiraCosta Community College District
Oceanside, California

We have audited the accompanying basic financial statements of the business-type activities of MiraCosta Community College District (the District) as of and for the year ended June 30, 2009, as listed in the Table of Contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of MiraCosta Community College as of June 30, 2009, and the respective changes in financial position and cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America. .

As discussed in the Notes to the Financial Statements, the accompanying financial statements reflect certain changes required as a result of the implementation of Governmental Accounting Standards Board (GASB) Statement No. 45 for the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

8270 Aspen Street Rancho Cucamonga, CA 91730 Tel 909.466.4410 Fax 909 466 4431 www.vtdcpa.com

FRESNO • LAGUNA HILLS • PALO ALTO • PLEASANTON • RANCHO CUCAMONGA

The Management's Discussion and Analysis and the Schedule of Other Postemployment Benefits (OPEB) Funding Progress, as listed in the Table of Contents, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the District's management. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vavrinek, Trine, Day & Co., LLP.

Rancho Cucamonga, California
December 18, 2009

MIRACOSTA COMMUNITY COLLEGE DISTRICT
One Barnard Drive, Oceanside, CA 92056
(760) 757-2121 • Fax (760) 795-6609 • www.miracosta.edu

INTRODUCTION

The following discussion and analysis provides an overview of the financial position and activities of MiraCosta Community College District (the District) for the year ended June 30, 2009. This discussion has been prepared by management and should be read in conjunction with the financial statements and notes thereto which follow this section.

The District was required to implement the reporting standards of Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35 beginning with fiscal year 2002-2003, using the Business-Type Activity (BTA) model. The California Community College System's Office, through its Fiscal Standards and Accountability Committee, recommended that all community college districts implement the new reporting standards under the BTA model. To comply with the recommendation of the System's Office and to report in a manner consistent with other California community college districts, the District has adopted the BTA reporting model for these financial statements.

MiraCosta Community College District is a public two-year community college. The main MiraCosta campus is located in Oceanside, California. The College also operates a San Elijo center located in Cardiff-by-the-Sea, California, as well as a Community Learning Center located in Oceanside, California. MiraCosta students may choose from several associate degree and certificate programs or complete courses toward the first two years of a bachelor's degree program.

FINANCIAL HIGHLIGHTS

As required by the GASB Statements No. 34 and No. 35 reporting model, this report consists of three basic financial statements that provide information on the District's governmental activities as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses, and Change in Net Assets; and the Statement of Cash Flows.

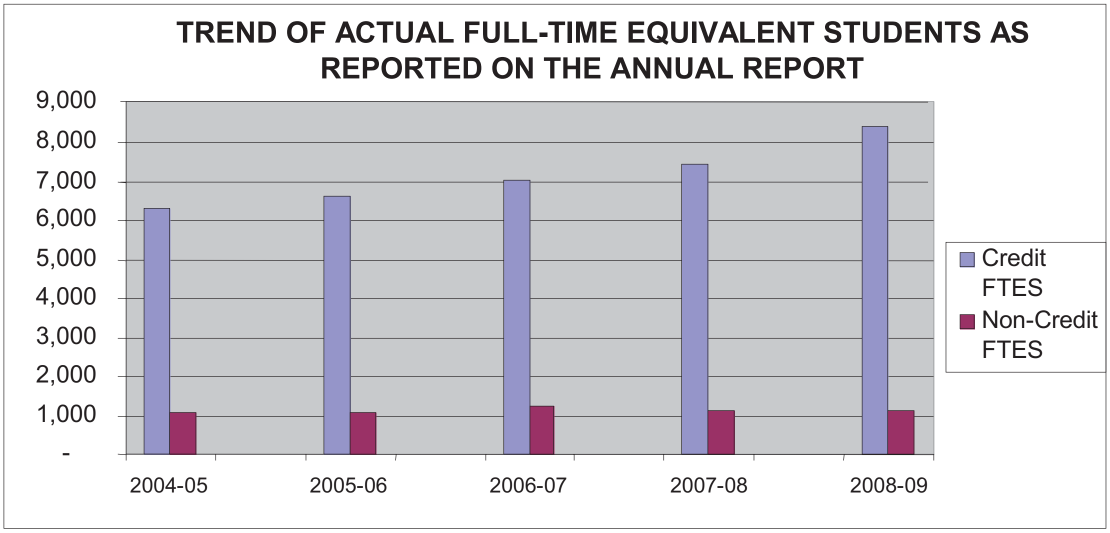
OCEANSIDE CAMPUS
One Barnard Drive, Oceanside, CA 92056
(760) 757-2121 • Fax (760) 795-6609

SAN ELIJO CAMPUS
3333 Manchester Ave., Cardiff-by-the-Sea, CA 92007
(760) 944-4449 • Fax (760) 634-7875

COMMUNITY LEARNING CENTER
1831 Mission Ave., Oceanside, CA 92058
(760) 795-8710 • Fax (760) 795-8730

Full-Time Equivalent Student Growth

- During 2008-2009, total full-time equivalent students (FTES) increased approximately 10.6 percent for credit and non-credit courses.



Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities and net assets of the District as of the end of the fiscal year and is prepared using the accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The Statement of Net Assets is a point of time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The Statement of Net Assets presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities).

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by the District.

The difference between total assets and total liabilities (net assets) is one indicator of the current financial condition of the District; the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

The Net Assets are divided into three major categories. The first category, invested in capital assets, provides the equity amount in property, plant, and equipment owned by the District. The second category is expendable restricted net assets; these net assets are available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets that are available to the District for any lawful purpose of the District.

A Statement of Net Assets as of June 30, 2009 and 2008, is summarized below:

(Amounts in thousands)

	2009	2008
ASSETS		
Current Assets		
Cash and investments	$ 40,461	$ 43,052
Accounts receivable	7,866	2,138
Prepaid expenses	51	112
Total Current Assets	48,378	45,302
Capital Assets (net)	96,089	87,102
Total Assets	$ 144,467	$ 132,404
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	$ 4,838	$ 3,181
Deferred revenue	2,513	1,867
Amounts held in custody on behalf of others	7,016	7,138
Current portion of long-term obligations	909	839
Total Current Liabilities	15,276	13,025
Long-Term Obligation	6,913	7,133
Total Liabilities	22,189	20,158
NET ASSETS		
Invested in capital assets	89,783	80,325
Restricted	14,408	14,789
Unrestricted	18,087	17,132
Total Net Assets	122,278	112,246
Total Liabilities and Net Assets	$ 144,467	$ 132,404

- Cash and investments decreased $2.6 million over 2008. Cash and investments include cash deposited in the San Diego County Treasury along with investments with fiscal agents related to a lease revenue bond. Additional deposits of funds are held with various financial institutions. The decrease in cash and investments for the 2008-2009 fiscal year reflects fewer funds held in the Capital Outlay Fund due to the status of the capital construction projects nearing completion.

- The accounts receivable balance includes receivables for categorical programs and/or grants, 4th quarter lottery proceeds, 4th quarter interest and capital outlay claims for the Creative Arts Expansion. Accounts receivable increased $5.7 million from 2008 and reflects $6.2 million of outstanding claims from the State for the construction of the Creative Arts Expansion building.

- The increase in capital assets, net, of $9.0 million reflects the construction in progress on the Creative Arts Expansion building and the completion of the Building 3000 remodel in addition to various other smaller remodels, energy, and paving projects. Capital assets increased $12.0 million from the prior year.

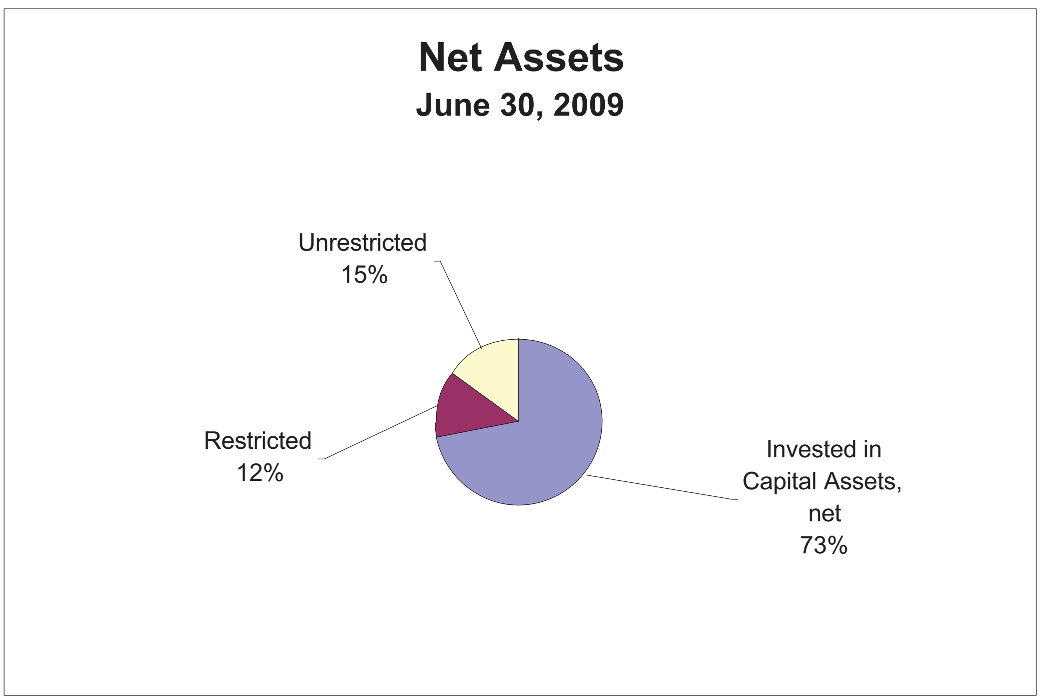
- Accounts payable and accrued liabilities include June payroll expenses, vendor payables including construction payments for goods and services received prior to June 30, but not paid until the following fiscal year. It reflects a $1.7 million increase from the prior year due largely to construction payables and accrued payroll costs.

- Deferred revenue consists of revenue received prior to being earned and includes enrollment fees for summer and fall, State categorical aid, and scheduled maintenance funds. Due to the State budget process, the State allowed a one-time carryover of certain unspent categorical funds to fiscal year 2010.

- The current portion of long-term obligations reflects the amounts due within one year on the payments for the lease revenue bonds, compensated absences, and capital lease payment.

- Long-term obligations decreased $220 thousand and reflect the debt for the lease revenue bonds, long-term compensated absences, and the capital lease agreement. The net decrease reflects principal payments on the bonds and capital lease agreement with an increase for compensated absences.

- Net assets include capital assets, net of related debt, debt service and capital projects funds, restricted assets for educational programs and unrestricted assets. Total net assets increased $10.0 million from 2008 primarily from cash and cash equivalents and capital assets, net as noted above.



Statement of Revenues, Expenses, and Change in Net Assets

Change in total net assets as presented on the Statement of Net Assets is based on the activity presented in the Statement of Revenues, Expenses, and Change in Net Assets. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not, by the District, the operating and non-operating expenses incurred, whether paid or not, by the District, and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this Statement presents the District's results of operations.

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the District. Non-operating revenues are those received or pledged for which goods and services are not provided; for example, State appropriations are non-operating because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

The Statement of Revenues, Expenses, and Change in Net Assets for the years ended June 30, 2009 and 2008, is summarized below:

(Amounts in thousands)

	2009	2008
Operating Revenues		
Tuition and fees	$ 7,356	$ 7,069
Auxiliary sales and charges	396	374
Total Operating Revenues	7,752	7,443
Total Operating Expenses	96,386	87,319
Operating Loss	(88,634)	(79,876)
Nonoperating Revenues (expenses)		
State apportionments, non-capital	-	38
Grants and contracts	10,183	9,724
Local property taxes	76,202	73,435
State and other revenues	1,807	1,851
Investment income, net	887	1,347
Other nonoperating revenues	2,028	1,205
Total Nonoperating Revenue (Expenses)	91,107	87,600
Other Revenues		
State revenues, capital	7,560	1,196
Net Increase in Net Assets	$ 10,033	$ 8,920

- Tuition and fees are generated by the resident, non-resident, and foreign fees paid by students attending MiraCosta College, including fees such as health fees, parking fees, community services classes, and other related fees. The change in tuition and fees is primarily related to the substantial increase in enrollment.

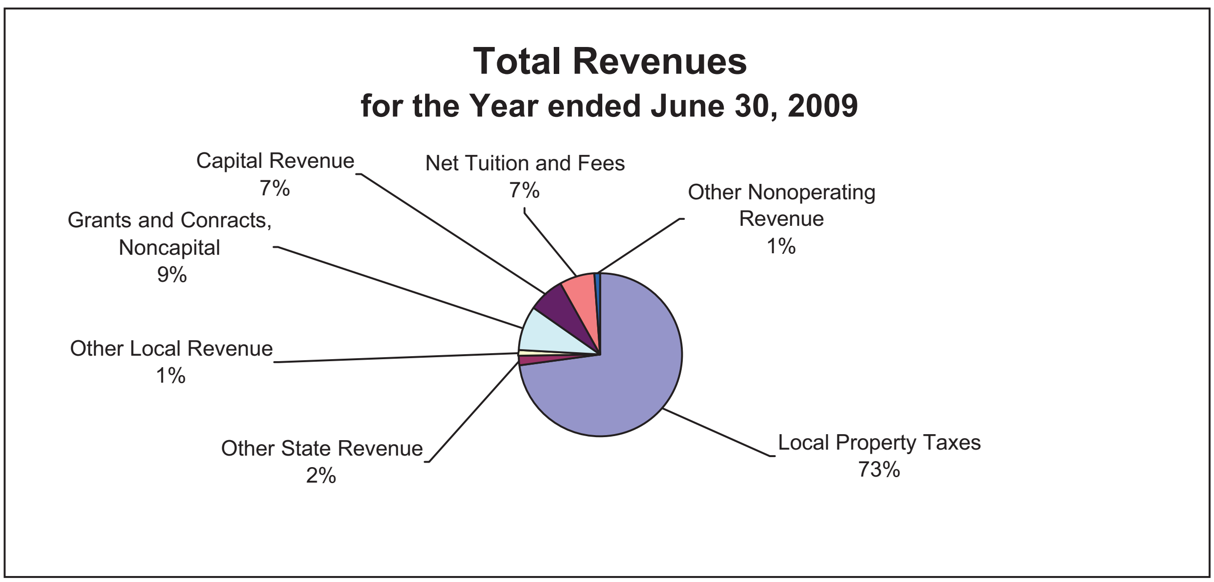
- The change in total operating expenses increased $9.0 million and includes employee salaries and benefits, supplies, operating expenses, and student financial aid. The increase also includes the payment to the irrevocable trust for the District's contribution towards the liability for Other Postemployment Benefits (OPEB).

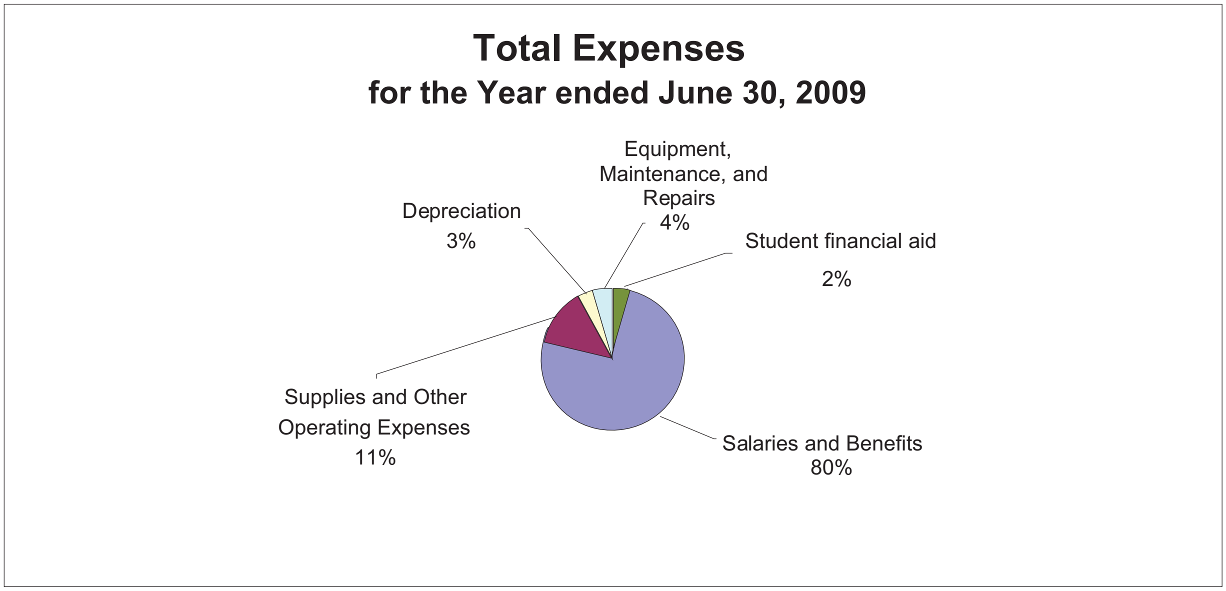
- The change in total non-operating revenues increased $3.5 million which was primarily due to the increase in local property tax revenues.

- The change in State revenues (capital) reflects an increase of $6.4 million in fiscal year 2009 due primarily to the construction of the Creative Arts Expansion project.

- The change in Net Increase in Net Assets increased $1.1 million from fiscal year 2008 as noted above.

- More detail of total operating expenses is included in the Statement of Revenues, Expenses, and Change in Net Assets which is part of the basic financial statements.





Expenses are reported by their operating categories as follows:

(Amounts in thousands)

	2009	2008
Operating Expenses		
Salaries	$ 58,747	$ 53,925
Employee benefits	18,598	14,709
Supplies, materials, and other operating expenses and services	10,271	9,587
Student financial aid	2,559	2,090
Equipment, maintenance, and repairs	3,415	3,884
Depreciation	2,796	3,124
Total Operating Expenses	$ 96,386	$ 87,319

- Salaries increased $4.8 million due to the 2.55 percent salary increase, along with step, column and longevity increases, new positions, and associate faculty growth related to the increased class offerings.

- Employee benefits increased $3.9 million due to the payment towards the Other Postemployment Benefits, as well as increased health premium costs and additional new employees.

- Student financial aid increased $469 thousand due to the increased enrollment of students receiving financial aid.

Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This Statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due and the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash used by the operating activities of the District. The second part details cash received for non-operating, non-investing, and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This part deals with the cash used for the acquisition and construction of capital and related items. The fourth part provides information from investing activities and the amount of interest received. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Change in Net Assets.

The Statement of Cash Flows for the year ended June 30, 2009 and 2008, is summarized below:

(Amounts in thousands)

	2009	2008
Cash Provided by (Used in)		
Operating activities	$ (84,843)	$ (69,829)
Noncapital financing activities	85,240	89,289
Capital financing activities	(4,077)	(14,448)
Investing activities	1,090	1,202
Net Change in Cash	(2,590)	6,214
Cash, Beginning of Year	43,052	36,838
Cash, End of Year	$ 40,462	$ 43,052

A detailed Statement of Cash Flows for the year ended June 30, 2009, is included in the Basic Financial Statements on pages 17 and 18 of this report.

- Cash receipts from operating activities are from student tuition and other local grants. Uses of cash are payments to employees, vendors, and students related to District programs. Net cash used in operating activities increased from the prior year by $15.0 million due, in part, to the reclassification of $7.1 million for amounts held on behalf of others for fiduciary funds which had been reported separately in prior years. The net cash used also reflects an $8.0 million increase for payments on behalf of employees, including the transfer to the irrevocable trust for the District's contribution towards the liability for Other Postemployment Benefits.

- Property tax revenue accounts for approximately 90 percent of the non-capital financing revenue.

- The primary use included in capital and related financing activities is the purchase of capital assets (building improvements, construction in progress, equipment, etc.).

- Cash from investing activities is mainly interest earned on cash in bank and cash invested through the San Diego County pool. Lower interest rates contributed to the decrease in interest earned.

DISTRICT'S FIDUCIARY RESPONSIBILITY

The District is the trustee, or fiduciary, for certain amounts held on behalf of students, clubs, and donors for student loans and scholarships. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

- As of June 30, 2009, the District had $96 million invested in capital assets net of accumulated depreciation. Total capital assets consist of land, infrastructure, buildings and building improvements, construction in progress, vehicles, data processing equipment, and other office equipment. Capital asset additions of $11 million occurred during 2008-2009 and depreciation expense of approximately $2.8 million was recorded for the fiscal year.

- Capital additions of construction in progress primarily comprise replacement, renovation, and new construction of facilities for the Creative Arts Expansion project and remodel of Building 3000, in addition to furniture and equipment. Current year additions were funded with capital appropriations from both local and State funds for those projects. The balance of additions was funded by unrestricted net assets which were designated for capital purposes.

Note 5 to the financial statements provides additional information on capital assets. A summary of capital assets, net of depreciation, is presented below:

(Amounts in thousands)

	2009	2008
Land and improvements	$ 5,732	$ 5,771
Site and site improvements	76,076	75,762
Furniture and equipment	3,726	3,362
Construction in progress	10,555	2,207
Net Capital Assets	$ 96,089	$ 87,102

Debt

- At June 30, 2009, the District had $4.0 million in debt in revenue bonds payable which reflects a decrease of $275 thousand. The District's bond credit rating of AAA has not changed.

- Compensated absences increased $238 thousand from the prior year.

- Also at June 30, 2009, the District had $1.6 million in debt for the capital lease agreement with SunTrust Corporation for the debt financing of the energy efficiency projects approved by the Board in December 2006.

- Note 9 to the financial statements provides additional information on long-term obligations.

- The District contributed 98 percent, or $3.2 million, of the annual required contribution to an irrevocable trust for the Retiree Health Benefit Program related to GASB Statement No. 45. The net Other Postemployment Benefit obligation remaining for 2009 was $68,000. Note 10 provides additional information on the plan and obligation.

A summary of long-term obligation is presented below:

(Amounts in thousands)

	2009	2008
Revenue bonds payable	$ 3,965	$ 4,240
Compensated absences	2,152	1,913
Capital leases	1,638	1,819
Net OPEB obligation	68	-
Total Long-Term Obligations	$ 7,823	$ 7,972

ECONOMIC FACTORS THAT MAY AFFECT THE FUTURE

The State's economic condition continues to cause concern for the District's State funded programs. The State budget cuts have forced other community college districts to reduce course offerings at a time when enrollment needs are rising. MiraCosta has committed its resources to providing additional courses to more students during this economic crisis. Additional cuts to our State funded programs or a lengthy recovery will impact our ability to provide the current level of service to students, faculty, staff, and our community.

While the District's Basic Aid status has provided a cushion from the level of cuts seen across the State, the amount of revenue from property taxes during the current economic downturn will not provide sufficient revenues for on-going cost increases until the real estate market rebounds. The District has sufficient reserves to weather the current market conditions for a period of time, but must prioritize the allocation of its resources to ensure that we continue to support the vision, mission, and core values in a fiscally responsible manner.

The District is in the process of gathering information for the next required actuarial study to determine the District's liability for retiree health benefits. Changes in the valuation data may affect the amount of the liability and the payment towards the annual required contribution amount. The District has established an irrevocable trust for these Other Postemployment Benefits and begun making payments towards the unfunded liability. Any substantial changes to the liability or annual required contribution may affect the District's ability to fund the plan. While governmental accounting standards require the reporting of the unfunded actuarial accrued liabilities for the benefits, it does not require that the District fund the liability. Funding has been considered fiscally prudent and may affect bond ratings.

Other than the items discussed above, the District is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during the 2009-2010 fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. Management continues to provide information to the campus community and the Board of Trustees on the financial condition of the District and to monitor resources to maintain our ability to react to internal and external issues if and when they arise.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Vice President of Business and Administrative Services, James E. Austin, at MiraCosta Community College District, One Barnard Drive, Oceanside, CA 92056-3899.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2009

ASSETS	
Current Assets	
Cash and cash equivalents	$ 1,641,504
Investments - unrestricted	38,117,315
Investments - restricted	702,687
Accounts receivable	7,848,315
Student accounts receivable	18,014
Prepaid expenses	50,896
Total Current Assets	48,378,731
Noncurrent Assets	
Nondepreciable capital assets	15,921,367
Depreciable capital assets, net of depreciation	80,167,333
Total Noncurrent Assets	96,088,700
TOTAL ASSETS	144,467,431
LIABILITIES	
Current Liabilities	
Accounts payable	4,837,874
Deferred revenue	2,513,035
Amounts held in custody on behalf of others	7,015,729
Compensated absences payable - current portion	430,301
Bonds payable - current portion	290,000
Lease obligations - current portion	189,148
Total Current Liabilities	15,276,087
Noncurrent Liabilities	
Compensated absences payable - noncurrent portion	1,721,206
Bonds payable - noncurrent portion	3,675,000
Lease obligations - noncurrent portion	1,448,557
Other long-term obligations - noncurrent portion	68,318
Total Noncurrent Liabilities	6,913,081
TOTAL LIABILITIES	22,189,168
NET ASSETS	
Invested in capital assets, net of related debt	89,783,308
Restricted for:	
Debt service	703,142
Capital projects	11,785,219
Educational programs	1,919,191
Unrestricted	18,087,403
TOTAL NET ASSETS	$ 122,278,263

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

MIRACOSTA COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

OPERATING REVENUES	
Student Tuition and Fees	$ 8,465,283
Less: Scholarship discounts and allowances	(1,109,086)
Net tuition and fees	7,356,197
Auxiliary Enterprise Sales and Charges	
Bookstore	359,773
Cafeteria	24,191
Internal service	11,545
TOTAL OPERATING REVENUES	7,751,706
OPERATING EXPENSES	
Salaries	58,747,235
Employee benefits	18,598,017
Supplies, materials, and other operating expenses and services	10,271,105
Student financial aid	2,559,085
Equipment, maintenance, and repairs	3,415,234
Depreciation	2,795,402
TOTAL OPERATING EXPENSES	96,386,078
OPERATING LOSS	(88,634,372)
NONOPERATING REVENUES (EXPENSES)	
Local property taxes levied for general purposes	76,201,576
State taxes and other revenues	1,806,851
Federal grants and contracts, noncapital	3,618,248
State grants and contracts, noncapital	6,565,185
Investment income, noncapital	880,063
Interest expense on capital related debt	(262,646)
Investment income on capital asset-related debt, net	6,811
Loss on disposal of capital assets	(7,960)
Transfer to agency fund	(5,000)
Other nonoperating revenues	2,304,146
TOTAL NONOPERATING REVENUES (EXPENSES)	91,107,274
INCOME BEFORE OTHER REVENUES AND EXPENSES	2,472,902
OTHER REVENUE	
State revenues, capital	7,559,728
CHANGE IN NET ASSETS	10,032,630
NET ASSETS, BEGINNING OF YEAR	112,245,633
NET ASSETS, END OF YEAR	$ 122,278,263

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

MIRACOSTA COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 7,403,654
Drawdowns of Federal direct student aid	2,625,699
Disbursement of Federal direct student aid	(2,625,699)
Payments for scholarships and grants	(2,559,085)
Payments to vendors for supplies and services	(13,295,728)
Payments to or on behalf of employees	(76,665,005)
Auxiliary enterprise sales and charges	395,509
Other operating receipts	(122,231)
Net Cash Flows From Operating Activities	(84,842,886)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Property taxes - nondebt related	76,201,576
Federal grants and contracts	3,661,877
State grants and contracts	7,253,479
State taxes and other apportionments	(4,172,612)
Other nonoperating	2,295,316
Net Cash Flows From Noncapital Financing Activities	85,239,636
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES	
Purchase of capital assets	(10,727,568)
Proceeds from sale of capital assets	15,542
State revenue, capital projects	7,346,628
Principal paid on capital debt	(456,207)
Interest paid on capital debt	(262,646)
Interest received on capital asset-related debt	6,811
Net Cash Flows From Capital Financing Activities	(4,077,440)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received from investments	1,089,962
Net Cash Flows From Investing Activities	1,089,962
NET CHANGE IN CASH AND CASH EQUIVALENTS	(2,590,728)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	43,052,234
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 40,461,506

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

STATEMENT OF CASH FLOWS, Continued
FOR THE YEAR ENDED JUNE 30, 2009

RECONCILIATION OF NET OPERATING LOSS TO NET CASH FLOWS FROM OPERATING ACTIVITIES	
Operating Loss	$ (88,634,372)
Adjustments to Reconcile Operating Loss to Net Cash Flows from Operating Activities:	
Depreciation and amortization expense	2,795,402
Changes in Operating Assets and Liabilities:	
Receivables, net	931
Prepaid expenses	61,512
Accounts payable and other accrued liabilities	578,496
Deferred revenue	171,003
Funds held for others	(122,231)
Compensated absences	238,055
Other postemployment benefits	68,318
Total Adjustments	3,791,486
Net Cash Flows From Operating Activities	$ (84,842,886)
CASH AND CASH EQUIVALENTS CONSIST OF THE FOLLOWING:	
Cash in banks	$ 1,641,504
Cash in county treasury	38,117,315
Restricted cash in county treasury	702,687
Total Cash and Cash Equivalents	$ 40,461,506
NON CASH TRANSACTIONS	
On behalf payments for benefits	$ 1,343,247
Loss on disposal of capital assets	7,960
	$ 1,351,207

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

NOTE 1 - ORGANIZATION

The MiraCosta Community College District (the District) was established in 1934 as a political subdivision of the State of California and provides educational services to residents of the surrounding area. The District operates under a locally elected seven-member Board of Trustees form of government, which establishes the policies and procedures by which the District operates. The Board must approve the annual budgets for the General Fund and capital project funds, but these budgets are managed at the department level. Currently, the District operates one college and two student centers located within North San Diego County. While the District is a political subdivision of the State of California, it is legally separate and is independent of other State and local governments, and it is not a component unit of the State in accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 39.

Financial Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Trustees.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB Statement No. 14, *The Financial Reporting Entity*. The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Based upon the requirements of GASB Statement No. 14, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the District, including their ongoing financial support to the District or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.

2. The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

3. The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

Based upon the application of the criteria listed above, the following potential component unit has been excluded from the District's reporting entity:

MiraCosta Community College Foundation

The MiraCosta Community College Foundation (the Foundation) is a separate not-for-profit corporation. The Board of Directors is elected independent of any District Board of Trustee's appointments. The Foundation is responsible for approving its own budget and accounting and finance related activities.

The Foundation is not included as a Component Unit because the third criterion was not met; the economic resources received and held by the Foundation are not significant to the District.

Financial statements for the Foundation can be obtained from the Foundation's Business Office at One Barnard Drive, Oceanside, CA 92056.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities as defined by GASB Statements No. 34 and No. 35 as amended by GASB Statements No. 37, No. 38, and No. 39. This presentation provides a comprehensive entity-wide perspective of the District's assets, liabilities, activities, and cash flows and replaces the fund group perspective previously required. Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All material intra-agency and intra-fund transactions have been eliminated.

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, and classified as operating revenues. These transactions are recorded on the accrual basis when the exchange takes place. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year.

Nonexchange transactions, in which the District receives value without directly giving equal value in return, include State apportionments, property taxes, certain grants, entitlements, and donations are classified as nonoperating revenue. Federal and State grants received to provide direct grants to students are classified as nonoperating revenues because the District does not generally receive any direct benefit from the grants and are recognized in the fiscal year in which all eligibility requirements are satisfied. Eligibility requirements may include time and/or purpose requirements. Property tax revenue is recognized in the fiscal year received. State apportionment revenue is earned based upon criteria set forth from the Community Colleges System's Office and includes reporting of full-time equivalent student (FTES) attendance. The corresponding apportionment revenue is recognized in the period the FTES are generated.

Operating expenses are costs incurred to provide instructional services including support costs, auxiliary services, and depreciation of capital assets. All other expenses not meeting this definition are reported as nonoperating. Expenses are recorded on the accrual basis as they are incurred, when goods are received, or services are rendered.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America (US GAAP) as applicable to colleges and universities, as well as those prescribed by the California Community Colleges System's Office. The District reports are based on all applicable GASB pronouncements, as well as applicable Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict or contradict GASB pronouncements. The District has not elected to apply FASB pronouncements after that date. When applicable, certain prior year amounts have been reclassified to conform to current year presentation. The budgetary and financial accounts of the District are maintained in accordance with the State System's Office's *Budget and Accounting Manual*.

The financial statements are presented in accordance with the reporting model as prescribed in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments,* and GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities,* as amended by GASB Statements No. 37 and No. 38. The business-type activities model followed by the District requires the following components of the District's financial statements:

- Management's Discussion and Analysis
- Basic Financial Statements for the District as a whole including:
  - Statement of Net Assets
  - Statement of Revenues, Expenses, and Changes in Net Assets
  - Statement of Cash Flows
- Notes to the Financial Statements

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be unrestricted cash on hand, demand deposits, and short-term unrestricted investments with original maturities of three months or less from the date of acquisition. Cash and cash equivalents represented balances restricted by external sources such as grants and contracts or specifically restricted for the repayment of capital debt.

Investments

Investments held at June 30, 2009, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Accounts Receivable

Accounts receivable include amounts due from the Federal, State and/or local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable also consist of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty, and staff, the majority of each residing in the State of California. The District sends outstanding receivables to the Chancellor's Office Tax Offset Program (COTOP) for collection and writes off the uncollected amounts annually.

Prepaid Expenses

Prepaid expenses represent payments made to vendors and others for services that will benefit periods beyond June 30.

Capital Assets and Depreciation

Capital assets are long-lived assets of the District as a whole and include land, construction-in-progress, buildings, leasehold improvements, and equipment. The District maintains an initial unit cost capitalization threshold of $5,000. Assets are recorded at historical cost, or estimated historical cost, when purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Improvements to buildings and land that significantly increase the value or extend the useful life of the asset are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Major outlays for capital improvements are recorded as construction-in-progress as the projects are constructed.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 25 to 50 years; improvements, 25 to 50 years; equipment, 4 to 10 years; vehicles, 5 to 10 years.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the entity-wide financial statements.

Compensated Absences

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the entity-wide financial statements. The amounts have been recorded in the fund from which the employees, who have accumulated the leave, are paid. The District also participates in "load-banking" with eligible academic employees whereby the employee may teach extra courses in one period in exchange for time off in another period.

Sick leave is accumulated without limit for each employee based upon negotiated contracts or Board policies and procedures. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full time.

Deferred Revenue

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized. Deferred revenues include (1) amounts received for tuition and fees prior to the end of the fiscal year that are related to the subsequent fiscal year and (2) amounts received from Federal and State grants received before the eligibility requirements are met.

Net Assets

GASB Statements No. 34 and No. 35 report equity as "Net Assets". Net assets are classified according to imposed restrictions or availability of assets for satisfaction of District obligations according to the following net asset categories:

Invested in Capital Assets, Net of Related Debt: Capital Assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted - Expendable: Net assets whose use by the District is subject to externally imposed constraints that can be fulfilled by actions of the District pursuant to those constraints or by the passage of time. Net assets may be restricted for capital projects, debt repayment, and/or educational programs. None of the District's restricted net assets have resulted from enabling legislation adopted by the District.

Unrestricted: Net assets that are not subject to externally imposed constraints. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties.

When both restricted and unrestricted resources are available for use, it is the District's practice to use restricted resources first and the unrestricted resources when they are needed. The entity-wide financial statements report $14,407,552 of restricted net assets.

On-Behalf Payments

GASB Statement No. 24 requires direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees for another legally separate entity be recognized as revenues and expenditures by the employer entity. The State of California makes direct on-behalf payments to the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) on behalf of all community colleges in California.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. The County Assessor is responsible for assessment of all taxable real property. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Scholarship Discounts and Allowances

Student tuition and fee revenue is reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances represent the difference between stated charges for enrollment fees and the amount that is paid by students or third parties making payments on the students' behalf. To the extent that fee waivers and discounts have been used to satisfy tuition and fee charges, the District has recorded a scholarship discount and allowance.

Federal Financial Assistance Programs

The District participates in federally funded Pell Grants, SEOG Grants, Federal Work-Study, and Stafford Loan programs, as well as other programs funded by the Federal government. Financial aid to students is either reported as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. These programs are audited in accordance with the Single Audit Act Amendments of 1996, and the U.S. Office of Management and Budget's revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations,* and the related *Compliance Supplement.* During the year ended June 30, 2009, the District distributed $751,746 in direct lending through the U.S. Department of Education. These amounts have not been included as revenues or expenses within the accompanying financial statements as the amounts were passed directly to qualifying students; however, the amounts are included on the Schedule of Expenditures of Federal Awards.

Interfund Activity

Interfund transfers and interfund receivables and payables are eliminated during the consolidation process in the entity-wide financial statements.

Changes in Accounting Principles

In July 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* This Statement requires local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the entity-wide financial statements of net assets and activities. This Statement established standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local government employers.

This Statement provided for prospective implementation – that is that employers set the beginning OPEB obligation at zero as of the beginning of the initial year. The District has implemented the provision of the Statement for the fiscal year ended June 30, 2009. The District had an annual required contribution of $3,270,378 for the year June 30, 2009, and made a contribution of $3,202,060 resulting in a net OPEB obligation of $68,318.

In July 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.* The standards in the Statement apply for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This Statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer OPEB plans when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. The District has implemented the provisions of this Statement for the fiscal year ended June 30, 2009.

New Accounting Pronouncements

In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Classifications*. The objectives of this Statements is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this Statement are effective for the financial statements for periods beginning after June 15, 2010. The District does not anticipate a significant impact in reporting as a result of this Statement as fund financial information is not reported.

In April 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for State and local governments into the GASB authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements for State and local governmental entities that are presented in conformity with GAAP and the framework for selecting those principles. GASB Statement No. 55 is effective immediately.

In April 2009, the GASB issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance presented in the AICPA's Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles: related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than auditing literature. GASB Statement No. 56 is effective immediately.

NOTE 3 - DEPOSITS AND INVESTMENTS

Policies and Practices

The District is authorized under California Government Code and the District's investment policy to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Summary of Deposits and Investments

Deposits and investments as of June 30, 2009, consist of the following:

Cash on hand and in banks	$ 1,591,504
Cash in revolving	50,000
Investments	38,820,002
Total Deposits and Investments	$ 40,461,506

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by primarily investing in the County investment pool.

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date
U.S. Federated Cash Reserves	$ 585,609	50.51*
County Investment Pool	38,449,420	332*
Total	$ 39,035,029	

* Weighted average days to maturity

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End AAA
U.S. Federated Cash Reserves	$ 585,609	Aa	$ 585,609
County Investment Pool	38,449,420	Aa	38,449,420
Total	$ 39,035,029		$ 39,035,029

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2009, the District's bank balance of $1,044,070 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivables for the District consisted primarily of intergovernmental grants, entitlements, interest, and other local sources.

The accounts receivable are as follows:

Federal Government	
Categorical aid	$ 420,149
State Government	
Categorical aid	218,540
Lottery	435,270
Other State sources	6,388,354
Local Sources	
Interest	154,354
Other local sources	231,647
Total	$ 7,848,314
Student receivables	$ 18,014

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the District for the fiscal year ended June 30, 2009, was as follows:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
Capital Assets Not Being Depreciated				
Land	$ 5,366,281	$ -	$ -	$ 5,366,281
Construction in progress	2,207,355	10,288,406	1,940,675	10,555,086
Total Capital Assets Not Being Depreciated	7,573,636	10,288,406	1,940,675	15,921,367
Capital Assets Being Depreciated				
Infrastructure	4,458,948	-	-	4,458,948
Buildings and improvements	121,827,151	1,940,675	-	123,767,826
Furniture and equipment	12,246,010	1,517,005	576,177	13,186,838
Total Capital Assets Being Depreciated	138,532,109	3,457,680	576,177	141,413,612
Total Capital Assets	146,105,745	13,746,086	2,516,852	157,334,979
Less Accumulated Depreciation				
Infrastructure	4,054,460	38,491	-	4,092,951
Buildings and improvements	46,065,286	1,627,217	-	47,692,503
Furniture and equipment	8,883,806	1,129,694	552,675	9,460,825
Total Accumulated Depreciation	59,003,552	2,795,402	552,675	61,246,279
Net Capital Assets	$ 87,102,193	$ 10,950,684	$ 1,964,177	$ 96,088,700

Depreciation expense for the year was $2,795,402.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable for the District consisted of the following:

Accrued payroll	$ 1,836,528
Construction	1,780,681
MiraCosta College Foundation	124,936
Vendor payables	1,095,729
Total	$ 4,837,874

NOTE 7 - DEFERRED REVENUE

Deferred revenue consisted of the following:

State categorical aid	$ 1,301,009
Schedule maintenance	192,469
Enrollment fees	835,152
Other local	184,405
Total	$ 2,513,035

NOTE 8 - INTERFUND TRANSACTIONS

Interfund Receivables and Payables (Due To/Due From)

Balances owing between funds at year-end were $33,491. The balances result from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. Interfund balances at June 30, 2009, have been eliminated in the consolidation process for financial statement presentation.

Interfund Operating Transfers

Operating transfers between funds of the District are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use restricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations. Operating transfers between funds of the District have been eliminated in the consolidation process.

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the 2009 fiscal year consisted of the following:

	Balance Beginning of Year	Additions	Deductions	Balance End of Year	Due in One Year
Bonds and Notes Payable					
Lease revenue bonds	$ 4,240,000	$ -	$ 275,000	$ 3,965,000	$ 290,000
Total Bonds and Notes Payable	4,240,000	-	275,000	3,965,000	290,000
Other Liabilities					
Compensated absences	1,913,452	248,565	10,510	2,151,507	430,301
Capital leases	1,818,912	-	181,207	1,637,705	189,148
Net OPEB obligation	-	3,270,378	3,202,060	68,318	-
Total Other Liabilities	3,732,364	3,518,943	3,393,777	3,857,530	619,449
Total Long-Term Obligations	$ 7,972,364	$ 3,518,943	$ 3,668,777	$ 7,822,530	$ 909,449

Description of Debt

Payments on the lease revenue bond are paid by the debt service fund. The compensated absences will be paid by the fund for which the employee worked. Payments for the OPEB obligation will be made by the irrevocable trust. Capital lease payments are also made out of the debt service fund.

On July 1, 1999, the District issued lease revenue bonds in the amount of $7,285,000 to be used to refund the 1998 issue of certificates of participation and to fund the construction of the Community Learning Center. Interest rates on the bonds range from 4.92 percent to 4.97 percent for the length of the issuance. The bonds will mature on October 1, 2019. At June 30, 2009, the principal balance outstanding was $3,965,000.

On December 21, 2006, the District entered into a debt financing agreement with SunTrust Corporation for the construction of six energy efficiency projects valued at approximately $2,234,983. The District is obligated to make payments through 2017 at an annual interest rate of 4.30 percent. At June 30, 2009, the principal balance outstanding was $1,637,705.

Debt Maturity

Lease Revenue Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2008	Issued	Redeemed	Bonds Outstanding June 30, 2009
1999	2019	4.92% - 4.97%	$ 7,285,000	$ 4,240,000	$ -	$ 275,000	$ 3,965,000

The bonds mature through 2020 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2010	$ 290,000	$ 174,175	$ 464,175
2011	300,000	161,930	461,930
2012	310,000	148,965	458,965
2013	325,000	135,150	460,150
2014	340,000	119,500	459,500
2015-2019	1,955,000	337,047	2,292,047
2020	445,000	10,291	455,291
Total	$ 3,965,000	$ 1,087,058	$ 5,052,058

Capital Leases

The District's liability on lease agreements with option to purchase is summarized below:

Balance, July 1, 2008	$ 2,182,232
Payments	256,733
Balance, June 30, 2009	$ 1,925,499

The capital lease has minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2010	$ 256,733
2011	256,733
2012	256,733
2013	256,733
2014	256,734
2015-2017	641,833
Total	1,925,499
Less: Amount Representing Interest	287,794
Present Value of Minimum Lease Payments	$ 1,637,705

The District has entered into a capital lease agreement for the energy efficient project.

Building improvements (energy efficient project)	$ 2,234,383
Less: Accumulated Depreciation	(81,927)
Total	$ 2,152,456

Amortization of the energy efficient project under capital leases is included with depreciation expense.

Compensated Absences

The long-term obligation of the compensated absences for the District at June 30, 2009, amounted to $2,151,507.

Other Postemployment Benefit Obligation

The District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, during the year ended June 30, 2009. The District's annual required contribution for the year ended June 30, 2009, was $3,270,378, and contributions made by the District during the year were $3,202,060, which resulted in a net OPEB obligation of $68,318. See Note 10 for additional information regarding the OPEB obligation and the postemployment benefit plan.

NOTE 10 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFIT OBLIGATION

The District provides postemployment health care benefits for retired employees in accordance with negotiated contracts with the various bargaining units of the District. The District has entered into the Retiree Health Benefit Program, a joint powers agreement. This agreement is entered into among those community college districts as defined in the agreement and the Community College League of California, a nonprofit public benefit corporation, for the purpose of management, operation, and maintenance of the retiree program.

Plan Description

The MiraCosta Community College District Plan (the Plan) is a single-employer defined benefit healthcare plan administered by the District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 63 retirees and beneficiaries currently receiving benefits, nine terminated plan members entitled to but not receiving benefits, and 407 active plan members.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the District's bargaining units. The required contribution is based on projected pay-as-you-go financing requirements with an additional amount to prefund benefits as determined annually through agreements between the District and the bargaining units. For fiscal year 2008-2009, the District contributed $3,202,060 to the Plan of which $2,316,287 was contributed to an irrevocable trust and $885,773 was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the payments of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding costs) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the Plan, and changes in the District's net OPEB obligation to the Plan:

Annual required contribution	$ 3,270,378
Contributions made	(3,202,060)
Increase in net OPEB obligation	68,318
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	$ 68,318

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2009 was as follows:

Annual Required Contribution	Percent Contributed	Net OPEB Obligation
$ 3,270,378	98%	$ 68,318

Funding Status and Funding Progress

Actuarial valuation of an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information, follows the notes to the financial statements and presents multi-year trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. Since this is the first year of implementation, only the current year information is presented.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer and the Plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial values of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2007, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the Plan being funded in an irrevocable employee benefit trust fund invested in a long-term fixed income portfolio. Healthcare cost trend rates ranged from an initial nine percent to an ultimate rate of five percent. The cost trend rate used for the Dental and Vision Programs was five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2007, was 30 years. The actuarial value of assets was not determined in this actuarial valuation. At June 30, 2009, the trust held net assets in the amount of $2,329,815, which consisted of $2,329,815 on deposit with Union Bank, the established bank account for the Retiree Health Benefit Program.

NOTE 11 - LEASE REVENUES

Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessees, but is unlikely that the District will cancel any of the agreements prior to their expiration date. The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending June 30,	Lease Revenue
2010	$ 75,000
2011	75,000
2012	75,000
2013	75,000
2014	75,000
2015-2019	337,500
Total	$ 712,500

NOTE 12 - RISK MANAGEMENT

Insurance Coverages

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance for property and liability with coverages of $250 million, subject to various policy limits and deductibles ranging from $500 to $10,000 per occurrence. The District also purchases commercial insurance for general liability claims with coverage up to $4.5 million per occurrence and $8 million aggregate, all subject to various deductibles. Employee health coverage benefits are covered by a commercial insurance policy purchased by the District. The District provides health insurance benefits to District employees, their families, and retired employees of the District.

Joint Powers Authority Risk Pools

During fiscal year ending June 30, 2009, the District contracted with the San Diego County Schools Risk Management Joint Powers Authority for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2008-2009, the District participated in the San Diego County Schools Risk Management Joint Powers Authority (JPA), an insurance purchasing pool. The District is self insured for the first $100,000 of each workers' compensation claim. The intent of the JPA is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the JPA. The workers' compensation experience of the participating districts is calculated as one experience, and a common premium rate is applied to all districts in the JPA. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall saving. A participant will then either receive money from or be required to contribute to the "equity-pooling fund". This "equity pooling" arrangement ensures that each participant shares equally in the overall performance of the JPA. Participation in the JPA is limited to K-12 and community college districts that can meet the JPA's selection criteria.

Insurance Program / Company Name	Type of Coverage	Limits	
San Diego County Schools Risk Management	Workers' Compensation	$	900,000
San Diego County Schools Risk Management	Excess Workers' Compensation	$	150,000,000
San Diego County Schools Risk Management	Property and Liability	$	250,000,000

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to CalSTRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

Funding Policy

Active members are required to contribute 8.0 percent of their salary while the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-2009 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's total contributions to CalSTRS for the fiscal years ended June 30, 2009, 2008, and 2007, were $2,463,361, $2,281,860, and $2,038,961, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

Plan Description

The District contributes to the School Employer Pool under CalPERS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary (seven percent of monthly salary over $133.33 if the member participates in Social Security), and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The District's contribution rate to CalPERS for fiscal year 2008-2009 was 9.428 percent of covered payroll. The District's contributions to CalPERS for fiscal years ending June 30, 2009, 2008, and 2007, were $1,849,972, $1,720,196, and $1,557,363, respectively, and equaled 100 percent of the required contributions for each year.

Public Agency Retirement System Alternate Retirement System (PARS-ARS)

The Omnibus Budget Reconciliation Act of 1990 [Internal Revenue Code Section 3121 (b) (7) (F)] requires State and local public agencies to provide a retirement plan for all employees not covered under existing employer pension plans and/or Social Security.

The District is a member of the Public Agency Retirement System Alternate Retirement System (PARS-ARS). The plan covers the District's part-time, seasonal, temporary, and other classified employees not covered under CalPERS or CalSTRS, but whose salaries would otherwise be subject to Social Security tax. Benefit provisions and other requirements are established by District management based on agreements with various bargaining units. PARS-ARS is a defined contribution qualified retirement plan under Section 401 (a) of the Internal Revenue Code. The plan also shall remain a governmental plan under section 3 (32) of the Employee Retirement Income Security Act of 1974.

The minimum total contribution is 7.5 percent of employees' salaries, of which the employee contributes 3.75 percent and the District contributes the remaining 3.75 percent. District employees are covered under PARS-ARS as of June 30, 2009. Total contributions to the plan amounted to $166,275.

On-Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS which amounted to $1,343,247, $1,249,352, and $538,000 (4.517 percent) of salaries subject to CalSTRS for the years ended June 30, 2009, 2008, and 2007, respectively. These amounts have been reflected in the basic financial statements as a component of nonoperating revenue and employee benefit expense.

Deferred Compensation

The District offers its employees a CalPERS administered 457 Deferred Compensation Program (the Program). The Program, available to all permanent employees, permits them to defer a portion of pre-tax salary into investment of an individual's own choosing until future years. The deferred compensation is not available to the employees or their beneficiaries until termination, retirement, death, or an unforeseeable emergency. The CalPERS Board controls the investment and administrative functions of the CalPERS 457 Deferred Compensation Program. The Board for the exclusive benefit of participating employees, which adds security, holds the assets in trust.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District receives financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the District. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2009.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2009.

Construction Commitments

As of June 30, 2009, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Original PO Amount	Remaining Construction Commitment	Expected Date of Completion
Building 3300 Remodel Project	$ 139,229	$ 130,952	June 2010
Community Learning Center Office Remodel	14,919	975	September 2009
Creative Arts Building Replacement	5,801	5,801	August 2009
Creative Arts Expansion Building	5,054,813	3,584,927	June 2010
Fireline Replacement	214,000	188,775	December 2011
Horticulture Complex	39,540	3,748	June 2010
Horticulture Project	5,487	5,487	August 2009
Landscape Upgrade	2,326	2,326	June 2010
Oceanside Water Redesign	11,800	2,342	June 2010
Refurbish Soccer Field	1,500	1,500	June 2010
Student Services Expansion - Career Transfer Center	3,202	3,202	August 2010
Various capital related projects	849,328	788,080	TBD
	$ 6,341,945	$ 4,718,115	

The projects are funded through capital project apportionments from the California State System's Office.

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the San Diego School Risk Management and Retiree Health Benefit Program Joint Power Authority (JPAs). The District pays annual premiums for its property liability, health, and workers' compensation coverage. The relationship between the District and the JPA is such that it is not a component unit of the District for financial reporting purposes.

The JPAs have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, transactions between the JPAs and the District are included in these statements. Audited financial statements are available from the respective entities.

The District's share of year-end assets, liabilities, or fund equity has not been calculated.

During the year ended June 30, 2009, the District made payments of $1,041,493 and $2,316,287 to San Diego School Risk Management and Retiree Health Benefit Program, respectively.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2009

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit Method (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2007	$ 2,329,815	$ 26,074,844	$ 23,745,029	8.9%	$ 49,400,000	48.1%

SUPPLEMENTARY INFORMATION

MIRACOSTA COMMUNITY COLLEGE DISTRICT

DISTRICT ORGANIZATION
JUNE 30, 2009

The MiraCosta Community College District was established in 1934 and is comprised of an area of approximately 15 square miles located in North San Diego County. There were no changes in the boundaries of the District during the current year. The District is comprised of one college in Oceanside and two centers, the San Elijo Center and the Community Learning Center. The District is accredited by the Accrediting Commission for Community and Junior Colleges, Western Association of Schools and Colleges.

BOARD OF TRUSTEES

MEMBER	OFFICE	TERM EXPIRES
Mr. Gregory M. Post, Esq.	President	2010
Ms. Jacqueline Simon	Vice President	2012
Mr. Charles Adams	Member	2010
Ms. Gloria Carranza	Member	2012
Mr. Rodolfo Fernandez	Member	2010
Dr. William C. Fischer	Member	2010
Mr. George McNeil	Member	2012
Dr. Judith Strattan	Member	2010

ADMINISTRATION

Dr. Francisco C. Rodriguez	Superintendent/President
Mr. James E. Austin	Vice President, Business and Administrative Services
Ms. Pam Deegan	Vice President, Instructional Services
Dr. Richard Robertson	Vice President, Student Services

See accompanying note to supplementary information.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Federal Expenditures
U.S. DEPARTMENT OF LABOR		
Pass through from the University of Missouri		
Workforce Investment Act		
Establishment of National Nuclear Energy		
Technology Workforce Center	17.261	$ 35,214
SMALL BUSINESS ADMINISTRATION		
Pass through from Southwestern Community College District		
Small Business Development Center Program	59.037	194,062
U.S. DEPARTMENT OF VETERAN AFFAIRS		
Veterans Reporting Fee	64.000	3,598
U.S. DEPARTMENT OF EDUCATION		
HIGHER EDUCATION ACT		
Student Financial Assistance Cluster		
Federal Supplemental Educational Opportunity Grants (FSEOG)	84.007	92,839
Federal Family Education Loans (FFEL)	84.032	751,746
Federal Work Study (FWS)	84.033	97,561
Federal Pell Grant (PELL)	84.063	2,391,673
Federal Pell Grant Administration	84.063	4,815
Academic Competitiveness Grant (ACG)	84.375	43,626
Subtotal Student Financial Assistance Cluster		3,382,260
Fund for Improvement of Postsecondary Education	84.116Z	159,185
ADULT EDUCATION AND FAMILY LITERACY ACT		
Pass through from California Department of Education (CDE)		
Adult Education and Family Literacy	84.002A	245,882
PERKINS CAREER AND TECHNICAL EDUCATION ACT		
Pass through from California Community College System's Office		
Career and Technical Education, Title IC	84.048	180,287
Tech Prep Program, Title II, Perkins Funding	84.243	81,405
Pass through from Grossmont-Cuyamaca Community College		
District Auxiliary Organization		
Career and Technical Education, Title IB	84.048	6,075
Tech Prep Coordination Grant	84.243	38,825
Total U.S. Department of Education		4,093,919
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		
Pass through from California Community College System's Office		
Temporary Assistance for Needy Families (TANF)	93.558	43,201
Total Expenditures of Federal Awards		$ 4,369,994

See accompanying note to supplementary information.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Program	Program Revenues Cash Received	Accounts Receivable	Deferred Income	Total Revenue	Total Program Expenditures
GENERAL FUND					
Basic Skills	$ 682,463	$ -	$ 386,806	$ 295,657	$ 295,657
Board Financial Assistance Program	231,173	-	14,799	216,374	216,374
Cal Grant	205,921	-	-	205,921	205,921
CalWORKs	478,711	-	-	478,711	478,711
CARE	102,371	-	7,135	95,236	95,236
Career Technical Education - Equipment	61,235	-	22,307	38,928	38,928
Career Technical Education - Small Business Development Center Entrepreneurship	58,014	27,237	-	85,251	85,251
Career Technical Education - Collaborative	369,701	-	218,840	150,861	150,861
Career Technical Education - Pathways Collaborative	400,000	-	395,519	4,481	4,481
Disabled Students Program and Services (DSPS)	754,380	-	56,910	697,470	697,470
Disabled Students Program and Services - Captioning	-	591	-	591	591
Extended Opportunity Program and Services (EOPS)	788,170	-	56,357	731,813	731,813
Faculty Staff Development	23,238	-	23,238	-	-
Instructional Equipment	100,000	-	37,027	62,973	62,973
Instructional Equipment - Block Grant	57,979	-	-	57,979	57,979
Licensed Vocational Nurse to Registered Nurse Grant	213,919	-	2,532	211,387	211,387
Lottery	2,929	111,926	-	114,855	114,855
Matriculation - Credit	598,184	-	70,704	527,480	527,480
Matriculation - Noncredit	200,979	-	-	200,979	200,979
Partnership for Excellence	1,700,961	-	-	1,700,961	1,700,961
Part-Time Faculty Reimbursement	366,892	-	-	366,892	366,892
Professional Development Academy	47,848	-	5,203	42,645	42,645
Small Business Development Center	42,000	8,000	-	50,000	50,000
Workforce Development	2,696	63,609	-	66,305	66,305
Staff Diversity	22,148	-	-	22,148	22,148
TANF - Child Development Careers	33,048	7,177	-	40,225	40,225
Telecom Technology Infrastructure Program	67,350	-	-	67,350	67,350
Transfer and Articulation	4,000	-	3,632	368	368
Workforce Development - 7th and 8th Grade	90,834	-	-	90,834	90,834
Total State Categorical Programs	$7,707,144	$218,540	$1,301,009	$6,624,675	$6,624,675

See accompanying note to supplementary information.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURES FOR STATE GENERAL APPORTIONMENT - ANNUAL (ACTUAL) ATTENDANCE AS OF JUNE 30, 2009

CATEGORIES	Reported Data	Audit Adjustments	Audited Data
A. Summer Intersession (Summer 2008 only)			
1. Noncredit	113	-	113
2. Credit	582	-	582
B. Summer Intersession (Summer 2009 - Prior to July 1, 2008)			
1. Noncredit	-	-	-
2. Credit	147	-	147
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	5,529	-	5,529
(b) Daily Census Contact Hours	630	-	630
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	986	-	986
(b) Credit	360	-	360
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	823	-	823
(b) Daily Census Contact Hours	269	-	269
(c) Noncredit Independent Study/Distance Education Courses	2	-	2
D. Total FTES	9,441	-	9,441
E. Supplemental Information			
In-Service Training Courses (FTES)	7	-	7
F. Basic Skills courses and Immigrant Education (FTES)			
1. Noncredit	719	-	719
2. Credit	407	-	407
	1,126	-	1,126

See accompanying note to supplementary information.

MIRACOSTA COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT (CCFS-311) WITH FUND FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2009

Summarized below are the fund balance reconciliations between the Annual Financial and Budget Report (CCFS-311) and the fund financial statements.

	Student Body Center Fee Trust
June 30, 2009, Annual Financial and Budget Report (CCFS-311)	
Reported Fund Balance	$ 1,033,004
Adjustments to Increase	
Capital Assets	5,617,840
June 30, 2009, Audited Financial Statement Fund Balance	$ 6,650,844

See accompanying note to supplementary information.

RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEETS TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:		
Total Fund Balances:		
General Fund	$ 25,719,141	
Capital Outlay Projects	11,785,219	
Debt Service Funds	703,142	
Enterprise Funds	970,364	
Internal Service Funds	173,830	
Fiduciary Funds	7,015,729	
Total Fund Balances and Due to Student Groups - All District Funds		**$ 46,367,425**
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	157,334,979	
Accumulated depreciation is	(61,246,279)	
Less fixed assets already recorded in enterprise and fiduciary funds	(5,769,904)	90,318,796
Amounts held in trust on behalf of others (Trust and Agency Funds)		(7,015,729)
Long-term obligations at year end consist of:		
Bonds payable	3,965,000	
Capital leases payable	1,637,705	
Compensated absences	2,151,507	
Other postemployment benefits	68,318	
Less compensated absences already recorded in funds	(430,301)	(7,392,229)
Total Net Assets		**$ 122,278,263**

See accompanying note to supplementary information.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2009

NOTE 1 - PURPOSE OF SCHEDULES

District Organization

This schedule provides information about the District's governing board members and administration members.

Schedule of Expenditures of Federal Awards

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

The following schedule provides reconciliation between revenues reported on the statement of revenues, expenses, and changes in net assets and the related expenditures reported on the schedule of expenditures of Federal awards. The reconciling amounts represent Federal Family Education Loans.

Description	CFDA Number	Amount
Total Federal Revenues per Statement of Revenues, Expenses, and Changes in Net Assets:		$ 3,618,248
Federal Family Education Loans (FFEL)	84.032	751,746
Total Expenditures of Federal Awards		$ 4,369,994

Schedule of Expenditures of State Awards

The accompanying schedule of expenditures of State awards includes the State grant activity of the District and is presented on the modified accrual basis of accounting. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The information in this schedule is presented to comply with reporting requirements of the California State System's Office.

Schedule of Workload Measures for State General Apportionment - Annual (Actual) Attendance

Full-Time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds, including restricted categorical funding, are made to community college districts. This schedule provides information regarding the annual attendance measurements of students throughout the District.

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

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District's internal fund financial statements.

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2009

Reconciliation of the Governmental Fund Balance Sheets to the Statement of Net Assets

This schedule provides a reconciliation of the adjustments necessary to bring the District's internal fund financial statements, prepared on a modified accrual basis, to the entity-wide full accrual basis financial statements required under GASB Statements No. 34 and No. 35 business-type activities reporting model.

INDEPENDENT AUDITORS' REPORTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
MiraCosta Community College District
Oceanside, California

We have audited the financial statements of the business-type activities of MiraCosta Community College District (the District) for the year ended June 30, 2009, and have issued our report thereon dated December 18, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered MiraCosta Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of MiraCosta Community College District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of MiraCosta Community College District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether MiraCosta Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, District Management, the California Community Colleges System's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 18, 2009

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

Board of Trustees
MiraCosta Community College District
Oceanside, California

Compliance

We have audited the compliance of MiraCosta Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2009. MiraCosta Community College District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of MiraCosta Community College District's management. Our responsibility is to express an opinion on MiraCosta 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 MiraCosta 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 of MiraCosta Community College District's compliance with those requirements.

In our opinion, MiraCosta 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, 2009.

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Internal Control Over Compliance

The management of MiraCosta Community College District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered MiraCosta Community College District's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of MiraCosta Community College District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Trustees, District Management, the California Community Colleges System's Office, and the District's Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 18, 2009

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

REPORT ON STATE COMPLIANCE

Board of Trustees
MiraCosta Community College District
Oceanside, California

We have audited the compliance of MiraCosta Community College District (the District) with the types of compliance requirements described in Section 400 of the California State System's Office's *California Community College District Audit Manual (CDAM)* that are applicable to community colleges in the State of California. The specific requirements are described below.

We conducted our audit of compliance 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 of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements with State laws and regulations have occurred. An audit includes examining, on a test basis, evidence about MiraCosta 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 of MiraCosta Community College District's compliance with those requirements.

General Directive

Section 424: MIS Implementation - State General Apportionment Funding System

Administration

Section 435: Open Enrollment

Section 437: Student Fees - Instructional Materials and Health Fees

Apportionments

Section 423: Apportionment of Instructional Service Agreements/Contracts

Section 425: Residency Determination for Credit Courses

Section 427: Concurrent Enrollment of K-12 Students in Community College Credit Courses

Section 432: Enrollment Fee

Section 426: Students Actively Enrolled

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Fiscal Operations

Section 421: Salaries of Classroom Instructors (50% Law)

Section 431: Gann Limit Calculation

Student Services

Section 428: Use of Matriculation Funds

Section 433: CalWORKs - Use of State and Federal TANF Funding

Facilities

Section 434: Scheduled Maintenance Program

In our opinion, MiraCosta Community College District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2009. However, the results of our auditing procedures disclosed other instances of noncompliance with those requirements, which are required to be reported and are described in the accompanying schedule of findings and questioned costs as item 2009-1.

MiraCosta Community College District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit MiraCosta Community College District's response and, accordingly, we express no opinion.

This report is intended solely for the information of the Board of Trustees, District Management, the California Community Colleges System's Office, the California Department of Finance, and the California Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP.

Rancho Cucamonga, California
December 18, 2009

Schedule of Findings and Questioned Costs

MIRACOSTA COMMUNITY COLLEGE DISTRICT

SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2009

FINANCIAL STATEMENTS

Type of auditors' report issued:	Unqualified
Internal control over financial reporting:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	No
Identification of major programs:	

CFDA Numbers	Name of Federal Program or Cluster
84.007, 84.032, 84.033, 84.063, and 84.375	Student Financial Assistance Cluster

Dollar threshold used to distinguish between Type A and Type B programs:	$ 300,000
Auditee qualified as low-risk auditee?	Yes

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	Yes
Type of auditors' report issued on compliance for State programs:	Unqualified

FINANCIAL STATEMENT FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2009

None reported.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

None reported.

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

The following findings represent instances of noncompliance and/or questioned costs relating to State program laws and regulations.

2009-1 Finding

Ineligible CalWORKs recipients were provided services.

Program

CalWORKs - Use of State and Federal TANF Funding

Award Year

2008-2009

Criteria

- *Education Code* Sections 79200-79203 and 84759
- 2008-09 *Final Budget Summary*, Page 630, Item 6870-101-0001, Provision 15; and Page 646, Item 6870-111-0001, Provision 2.
  Chancellor's Office CalWORKs Program Handbook Guidelines_2007-08
- *Clarification on CalWORKs Supplantation Prohibition*, Chancellor's Office Letter, March 13, 2006 (See Appendix M)
  OMB A-133 Compliance Supplement

Condition

In our sample of 28 CalWORKs recipients, we noted four (4) CalWORKs recipients who did not have the proper eligibility documented through the County Welfare Department for each academic term the recipient was served.

Questioned Costs

None noted.

Isolated Instance or Systemic

Systemic - Once the initial eligibility determination is made by the County Welfare Department, ongoing communication with the County is essential to ensure that a student remains in good standing. Eligibility determinations must be conducted at the beginning of each term to ensure students are eligible for services prior to receiving them.

Effect

Without the proper controls in place, unauthorized program costs and services provided to ineligible recipients could be reimbursed by the State program.

Recommendation

We recommend that the District develop an independent internal tracking for student eligibility. Services provided through other college departments, like the Child Care Center, must be coordinated with the CalWORKs program office to also verify a student's ongoing eligibility for services and academic progress, and to monitor program expenses that are directly attributable to support for the identified CalWORKs eligible students.

District Response and Planned Corrective Actions

As of September 2009, District staff has access to the State CalWIN database and can verify a student's status at intake. A hard copy of the status verification is made at intake, downloaded, and placed in the participant's file. Per the CalWORKs Program Guide, we will perform student status verification at the beginning of each semester at a minimum for continuing students.

Verification by District CalWORKs staff will be made and filed before any services are provided for a new student or for services beyond the enrollment process. Updated documentation will be on file prior to completion of an Individual Training Plan for a continuing student.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

None reported.

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APPENDIX C

FINANCIAL AND DEMOGRAPHIC INFORMATION FOR PALOMAR COMMUNITY COLLEGE DISTRICT

PALOMAR COMMUNITY COLLEGE DISTRICT

Introduction

Palomar Community College District (the "District") was founded in 1946. The District's 200-acre San Marcos campus, its education center located in the City of Escondido, and five regional outreach sites currently serve an area covering 2,555 square miles in North San Diego County. The five outreach sites are located in the communities of Camp Pendleton, Fallbrook, Mt. Carmel, Pauma Valley, and Ramona. The District had a 2009-10 assessed valuation of $92,013,461,941.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of audited financial reports of the District may be obtained by contacting: Palomar Community College District, Attention: Assistant Superintendent/Vice President, Finance and Administrative Services, 1140 West Mission Road, San Marcos, California 92069.

Capitalized terms used but not otherwise defined in this Appendix will have the meanings assigned to such terms in the front part of this Official Statement.

Administration

The District is governed by a five-member Board of Trustees, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

Board Member	Title	Term Expires
Dr. Michele T. Nelson	President	December 2010
Mark R. Evilsizer	Vice President	December 2010
Darrell L. McMullen	Secretary	December 2012
Dr. Rosie Marie Dishman	Trustee	December 2012
Nancy C. Chadwick	Trustee	December 2012

Brief biographies of the Superintendent/President and the Assistant Superintendent/Vice President, Finance and Administrative Services follow:

Robert P. Deegan, Superintendent/President. Robert Deegan became the ninth Superintendent/President of Palomar College and the Palomar Community College District on January 14, 2005. Mr. Deegan came to Palomar from Santiago Canyon College, where he served as Vice President of Student Services. Prior to his position at Santiago Canyon, Mr. Deegan was a faculty member at Irvine Valley College, where he taught and counseled for 19 years, held many leadership offices, and was selected twice to fill one-year terms as Interim Vice President of Student Services. He also worked as a counselor at California State University, Dominguez Hills. Mr. Deegan earned both his bachelor's degree in psychology and master's degree in counseling at San Francisco State University.

Dr. Bonnie Ann Dowd, Assistant Superintendent/Vice President, Finance and Administrative Services. Dr. Dowd became the Assistant Superintendent/Vice President, Finance and Administrative Services on January 17, 2006, after serving as a Professor, Business Education and in several faculty leadership positions and various program and department coordinators/chairs at the District over a period of fifteen and half years. Dr. Dowd is in her 21st year of employment at Palomar College. She currently serves on several California Community College System state-wide boards. Prior to joining the District, Dr. Dowd spent 22 years in private industry in various management positions. Dr. Dowd has been a licensed CMA (Certified Management Accountant) since 1994, received her bachelor's degree in

Accounting from the University of Houston in 1982, her master's degree in Financial Management from National University in 1986, and her doctoral degree in Education with an emphasis in leadership studies from the University of San Diego in 2003.

District Growth

The following table shows the District's full-time equivalent students for fiscal years 2001-02 through 2009-10, along with a projection for fiscal year 2010-11:

FULL TIME EQUIVALENT STUDENTS
Fiscal Years 2001-02 through 2010-11
Palomar Community College District

School Year	FTES	Annual Change	% Change
2001-02	18,825	--	--
2002-03	18,597	(228)	(1.21)%
2003-04	18,758	161	0.87
2004-05	19,349	591	3.15
2005-06	19,326	(23)	(0.11)
2006-07	19,406	80	0.41
2007-08	20,005	599	3.08
2008-09	20,461	456	2.28
2009-10	20,860	399	1.95
2010-11(1)	21,200	340	1.62

(1) Projected.
Source: Palomar Community College District.

Labor Relations

The District employs 85 administrative employees and 384 classified employees. In addition, the District employs 267 full-time faculty, 405 part-time faculty and 9 child development employees. District employees, except management and some short-term non-academic employees, are represented by the following bargaining units.

Number of Employees	Bargaining Unit	Expiration Date
681	Palomar Faculty Federation	June 30, 2011
384	Council of Classified Employees	--[1]

[1] Contract with District classified employees has no expiration date. The District is currently negotiating a comprehensive contract with this bargaining unit.
Source: Palomar Community College District.

Retirement Plans

The District participates in the State of California Teachers' Retirement System ("STRS"). The plan includes basically all certificated employees. The District's contribution to STRS was $3,509,668 in fiscal year 2008-09, $3,395,695 in fiscal year 2009-10, and is budgeted to be $3,322,812 in fiscal year 2010-11. The District also participates in the State of California Public Employees' Retirement System ("PERS"). This plan covers basically all regular classified personnel who are employed four or more hours per day. The District's contribution to PERS was $2,545,033 in fiscal year 2008-09, $2,593,148 in fiscal year 2009-10, and is budgeted to be $2,879,923 in fiscal year 2010-11.

The District is currently required by statute to contribute 8.25% of eligible salary expenditures to STRS, while participants contribute 8% of their respective salaries. STRS has a substantial statewide unfunded liability. Since this liability has not been broken down by each school or community college district, it is impossible to determine the District's share. The District was required to contribute to PERS at an actuarially determined rate, which is 10.707% of eligible salary expenditures for fiscal year 2010-11, while participants contribute 7% of their respective salaries.

Other Post-Employment Benefits

The District provides post-employment dental, medical and Medicare supplemental coverage benefits (the "Benefits"), in accordance with District employment contracts, to certain employees who retire from the District on or after attaining age 50 (for PERS participants) or 55 (for STRS participants), and with at least 10 years of service to the District. Currently, 374 retirees meet those eligibility requirements. Expenditures for the Benefits are recognized on a pay-as-you-go basis, as premiums are paid. For fiscal year 2010-11, the District has budgeted approximately $4,745,823 for the Benefits.

The District has commissioned and received an actuarial study with respect to its outstanding liability for the Benefits. The study, dated as of April 14, 2008 for a valuation date of November 1, 2007, calculated the unfunded actuarially accrued liability of the District with respect to the Benefits to be approximately $68,399,865 (the "AAL"). The study also determined that the annual required contribution ("ARC") was $4,550,700; the ARC is the annual amount that would be necessary to fund the Benefits in accordance with the Governmental Accounting Standards Board Statements Nos. 43 and 45.

As of fiscal year 2009-10, the District had a balance of $14,124,429 in its Retiree Benefit Fund to fund the AAL; such funds have not been irrevocably pledged to fund the Benefits, and therefore may be expended for other purposes by the District.

Insurance

The Palomar Community College District participates in four joint powers agreements for the following entities: the San Diego County Schools Fringe Benefits Consortium ("SDCSFBC"); the Statewide Association of Community Colleges ("SWACC"); the Schools Association for Excess Risk ("SAFER"); and the California Community College League Retiree Health Benefit Joint Powers Authority (collectively, the "JPAs"). The relationship between the District and each of the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes.

The San Diego County Schools Fringe Benefits Consortium provides employee fringe benefits to various school districts and community college districts throughout San Diego County. The San Diego County Schools Fringe Benefits Consortium's governing board is made up of one representative from each member district.

The SWACC provides property and liability coverage to various community college districts throughout California. SWACC is governed by a board consisting of one representative from each member district.

The Schools Association For Excess Risk Joint Powers Authority (SAFER) program, established in 2002, provides an excess liability insurance fund for 547 member California K-12 schools and community college districts. A Board of Directors is comprised of two representatives from each member with an ADA over 100,000 or one for ADA's less than 100,000. Members pay annual contributions based upon calculations by SAFER's Board and shares surpluses and deficits proportionately to participation in SAFER.

Assessed Valuation

The following table sets forth the eight-year history of assessed valuations in the District.

ASSESSED VALUATIONS
Fiscal Year 2002-03 through 2009-10
Palomar Community College District

	Local Secured	Utility	Unsecured	Total
2002-03	$52,163,763,602	$6,743,802	$1,925,944,489	$54,096,451,893
2003-04	57,716,557,906	5,724,101	1,927,133,409	59,649,415,416
2004-05	64,531,078,839	8,776,906	1,896,973,712	66,436,829,457
2005-06	73,545,905,051	208,157,050	2,069,903,858	75,823,965,959
2006-07	83,106,713,391	370,531,432	2,393,466,464	85,870,711,287
2007-08	90,718,081,684	197,918,241	2,350,870,708	93,266,870,633
2008-09	92,981,484,262	194,925,039	2,441,308,216	95,617,717,517
2009-10	89,226,352,816	204,700,348	2,582,408,777	92,013,461,941

Source: California Municipal Statistics, Inc.

Secured Tax Charges and Delinquencies

The annual secured tax levies and delinquencies for fiscal years 2005-06 through 2008-09 are shown below.

SECURED TAX CHARGES AND DELINQUENCIES
Fiscal Years 2005-06 Through 2008-09
Palomar Community College District

	Secured Tax Charge[1]	Amt. Del. June 30[2]	% Del. June 30[2]
2004-05	$36,301,453.37	--	--
2005-06	41,403,499.27	--	--
2006-07	47,108,671.76	--	--
2007-08	51,377,631.51	--	--
2008-09	52,814,875.41	--	--

[1] 1% General Fund apportionment. Excludes redevelopment agency impounds.
[2] San Diego County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the county retaining all penalties and interest. See "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Alternative Method of Tax Apportionment – Teeter Plan" in the front part of this Official Statement.
Source: California Municipal Statistics, Inc.

Principal Taxpayers

The following table lists the 20 largest local secured taxpayers in the District in terms of their 2009-10 secured assessed valuations.

LARGEST 2009-10 SECURED TAXPAYERS
Palomar Community College District

	Property Owner	Primary Land Use	2009-10 Assessed Valuation	% of Total[1]
1.	Kilroy Realty LP	Office Building	$599,968,341	0.67%
2.	Camp Pendleton & Quantico Housing LLC	Apartments	483,065,157	0.54
3.	Sorrento West Properties Inc.	Industrial	202,024,145	0.23
4.	North County Fair LLC	Shopping Center	171,571,345	0.19
5.	Hewlett-Packard Co.	Industrial	152,111,382	0.17
6.	Cymer Inc.	Office Building	131,425,409	0.15
7.	Slough Poway I LLC	Office Building	127,975,000	0.14
8.	Pacific Carmel Mountain Holdings LP	Office Building	125,231,763	0.14
9.	The Reserve at 4S Ranch LLC	Apartments	111,349,592	0.12
10.	SMBC Leasing and Finance Inc.	Office Building	108,042,000	0.12
11.	Bernardo Summit LLC	Industrial	96,813,300	0.11
12.	Sony Electronics Inc.	Industrial	95,576,929	0.11
13.	Point Office Partners LLC	Office Building	93,636,000	0.10
14.	Alliance I LLC	Apartments	86,400,000	0.10
15.	Costco Wholesale Corporation	Office Building	86,037,542	0.10
16.	Prominence Willmark Communities Inc.	Apartments	85,749,385	0.10
17.	BRE Properties Inc.	Apartments	85,419,212	0.10
18.	Camden USA Inc.	Apartments	84,075,575	0.09
19.	Bernardo Technology Partners I LLC	Office Building	79,233,893	0.09
20.	BAE Systems Mission Solutions Inc.	Industrial	74,975,221	0.08
			$3,080,681,191	3.45%

(1) 2009-10 local secured assessed valuation: $89,226,352,816.
Source: California Municipal Statistics, Inc.

Tax Rates

Representative tax rate area (each, a "TRA") located within the District are TRA 04-13 and 08-141. The table below demonstrates the total *ad valorem* tax rates levied by all taxing entities in these tax rate areas during the five-year period from 2005-06 through 2009-10.

TYPICAL TAX RATES
Palomar Community College District

	2005-06	2006-07	2007-08	2008-09	2009-10
	Within the City of Escondido – TRA 04-13				
General	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Palomar Pomerado Healthcare District	0.01775	0.01775	0.01775	0.01775	0.01775
Palomar Community College District	--	--	0.00984	0.01322	0.00862
Escondido Elementary School District	0.03341	0.02908	0.02706	0.02813	0.03269
Escondido Union High School District	0.01543	0.01721	0.01313	0.01723	0.02140
City of Escondido	--	0.04634	0.04013	0.03666	0.04086
Metropolitan Water District	0.00520	0.00470	0.00450	0.00430	0.00430
Total	1.07179%	1.11508%	1.11241%	1.11729%	1.12562%
	Within the City of San Diego – TRA 08-141				
General	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Palomar Community College District	--	--	0.00984	0.01775	0.01775
Palomar Pomerado Healthcare District	0.01775	0.01775	0.01775	0.01322	0.00862
City of San Diego	0.00645	0.00624	0.00619	0.00608	0.00613
Metropolitan Water District	0.00520	0.00470	0.00450	0.00430	0.00430
Total	1.02940%	1.02869%	1.03828%	1.04135%	1.03680%

Source: California Municipal Statistics, Inc.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California Community College Budget and Accounting Manual. This manual, according to Section 84030 of the California Education Code, is to be followed by all California community college districts. The Governmental Accounting Standards Board ("GASB") has released (i) Statement No. 34, which makes changes in the annual financial statements for all governmental agencies in the United States, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted, and (ii) Statement No. 35, which makes changes in the required content and format of annual financial statements for public colleges and universities. The revised reporting format provides a comprehensive entity-wide perspective of the District's assets, liabilities, and cash flows and replaces the fund-group perspective previously required. These requirements became effective on June 15, 2002 for the District, as well as for any other governmental agency with annual revenues of between $10 million and $100 million. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred. For audited general fund figures in the revised reporting format described above, see "– Comparative Financial Statements" herein.

The following table shows the District's general fund budgets for fiscal years 2007-08 through 2010-11, and the District's unaudited and projected actuals for fiscal years 2007-08 through 2009-10.

	Adopted Budget 2007-08	Unaudited Actuals 2007-08[1]	Adopted Budget 2008-09	Unaudited Actuals 2008-09[1]	Adopted Budget 2009-10	Projected Actuals 2009-10[2]	Tentative Budget 2010-11[3]
REVENUES							
Federal Revenues	$4,632,188	$3,846,017	$4,544,097	$3,607,979	$5,676,112	$5,149,609	$3,299,834
State Revenues	49,482,415	47,369,928	48,977,396	54,882,436	47,643,399	46,397,214	45,079,226
Local Revenues	65,860,197	70,570,412	73,175,277	70,807,104	68,937,475	68,332,426	67,228,721
TOTAL REVENUES	119,974,800	121,786,357	126,696,770	129,297,519	122,256,986	119,879,249	115,607,781
EXPENDITURES							
Academic Salaries	45,447,138	50,225,161	48,653,196	49,299,931	49,147,729	46,574,801	47,063,394
Classified Salaries	30,164,519	30,988,244	30,918,784	30,260,422	31,318,097	29,264,671	30,456,864
Employee Benefits	24,073,078	23,498,889	24,555,375	23,057,060	24,713,980	23,920,260	26,976,931
Supplies and Materials	1,812,120	2,236,850	2,128,775	1,657,056	2,373,121	1,913,221	1,665,107
Other Operating Expenses and Services	13,868,927	14,623,603	18,138,582	15,543,011	14,518,009	12,021,351	12,054,321
Capital Outlay	2,045,625	2,415,789	1,625,638	1,644,328	1,935,936	2,079,947	525,443
TOTAL EXPENDITURES	117,411,407	123,988,536	126,020,350	121,461,808	124,006,872	115,774,251	118,742,060
EXCESS/(DEFICIENCY) OF REVENUES OVER EXPENDITURES	2,563,393	(2,202,179)	676,420	7,835,711	(1,749,886)	4,104,998	(3,134,279)
OTHER FINANCING SOURCES	149,153	2,958,138	1,932,822	1,198,071	2,267,845	1,233,676	4,698,037
OTHER OUTGO	(1,454,445)	(4,120,184)	(4,338,564)	(2,224,220)	(6,160,782)	(2,259,364)	(7,292,179)
NET INCREASE (DECREASE) IN FUND BALANCE	1,258,101	(3,364,225)	(1,729,322)	6,809,562	(5,642,823)	3,079,310	(5,728,421)
BEGINNING FUND BALANCE	17,860,518	17,860,518	14,496,293	14,496,293	21,305,855	21,305,855	24,385,165
ENDING FUND BALANCE	$19,118,619	$14,496,293	$12,766,971	$21,305,855	$15,663,032	$24,385,165	$18,656,744

(1) Unaudited actual results for fiscal years 2007-08, 2008-09 and 2009-10 provided for comparison with District budgets. For audited results for such fiscal years in revised reporting format, see "– Comparative Financial Statements" herein.
(2) Actuals are projected as of Fiscal Year 2009-10 and will be finalized upon adoption of the Fiscal Year 2010-11 Budget.
(3) Fiscal Year 2010-11 Tentative Budget was approved by the Governing Board on June 8, 2010. Fiscal Year 2010-11 Adopted Budget will be presented for Governing Board approval on September 28, 2010.

Source: Palomar Community College District.

Comparative Financial Statements

The table on the following page shows audited financial information for the District for fiscal years 2005-06 through 2008-09.

AUDITED STATEMENT OF TOTAL REVENUES AND EXPENDITURES AND CHANGES IN NET ASSETS – GENERAL FUND
Fiscal Years 2005-06 through 2008-09
Palomar Community College District

	Fiscal Year 2005-06	Fiscal Year 2006-07	Fiscal Year 2007-08	Fiscal Year 2008-09
OPERATING REVENUES				
Tuition and Fees (gross)	$15,471,010	$14,785,297	$14,119,253	$15,544,761
Less: Scholarship Discounts and Allowances	(2,598,102)	(2,396,092)	(2,199,160)	(2,540,350)
Net Tuition and Fees	12,872,908	12,389,205	11,920,093	13,004,411
Grant and Contracts, non-capital:				
Federal	6,750,536	7,800,920	8,725,926	10,259,732
State	9,928,699	16,821,999	12,088,091	13,965,690
Local	5,023,220	4,947,957	5,532,960	4,822,497
TOTAL OPERATING REVENUES	34,575,363	41,960,081	38,267,070	42,052,330
OPERATING EXPENSES				
Salaries	67,259,858	73,850,286	82,066,536	80,582,368
Employee benefits	20,116,928	21,903,638	24,641,073	24,607,560
Supplies, materials and other operating expenses and services	14,333,381	17,691,789	21,714,990	19,097,352
Financial aid	4,863,609	4,997,918	5,844,463	7,551,991
Utilities	1,651,710	1,919,643	2,238,088	2,248,784
Depreciation	3,420,146	2,424,634	2,639,660	3,087,211
TOTAL OPERATING EXPENSES	111,645,632	122,787,908	139,144,810	137,175,266
OPERATING LOSS	(77,070,269)	(80,827,827)	(100,877,740)	(95,122,936)
NON-OPERATING REVENUES (EXPENSES)				
State apportionments, non-capital	25,567,272	31,600,273	33,021,030	38,974,983
Local property taxes	47,834,119	49,835,336	52,667,702	52,967,023
State taxes and other revenues	3,691,014	3,445,584	3,268,115	3,111,333
Interest and investment income	1,173,515	1,917,995	2,261,269	1,062,473
Transfers in from fiduciary funds, net	112,944	155,644	159,171	156,817
Loss on disposal of capital assets	(6,568)	--	--	--
Debt service	(387,223)	(1,638,151)	--	--
Interest expense	--	--	(7,655,142)	(7,537,990)
TOTAL NON-OPERATING REVENUES (EXPENSES)	77,985,073	85,316,681	83,722,145	88,734,639
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	914,804	4,488,854	(17,155,595)	(6,388,297)
OTHER REVENUES, EXPENSES, GAINS AND LOSSES				
State apportionments, capital	14,188,280	13,464,935	3,892,290	8,624,962
Local property taxes and revenue, capital	917,324	1,066,899	10,858,992	14,700,590
Interest and investment income, capital	56,058	1,240,016	6,070,271	2,918,790
Loss of disposal of fixed income	--	--	(10,464)	(408,764)
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	15,161,662	15,771,850	20,811,089	25,835,578
INCREASE IN NET ASSETS	16,076,466	20,260,704	3,655,494	19,447,281
NET ASSETS - BEGINNING OF YEAR	53,432,166	72,869,299	93,130,003	96,785,497
ADJUSTMENT FOR RESTATEMENT	3,360,667	--	--	--
NET ASSETS, BEGINNING OF YEAR – ADJUSTED	56,792,833	--	--	--
NET ASSETS - END OF YEAR	$72,869,299	$93,130,003	$96,785,497	$116,232,778

Source: Palomar Community College District.

District Debt Structure

Long-Term Debt. A schedule of changes in long-term debt for the year ended June 30, 2009 is shown below:

	Beginning Balance	Additions	Deductions	Ending Balance
Capital leases	$72,496	--	$72,496	--
Certificates of participation (COP)	4,985,000	--	325,000	$4,660,000
Revenue bonds	2,705,000	--	65,000	2,640,000
General obligation bonds	163,850,886	--	6,493,787	157,357,099
Other post-employment benefits (OPEB)	--	$759,905	--	759,905
	$171,613,382	$759,905	$6,956,283	$165,417,004

General Obligation Bonds. On November 7, 2006, the voters of the District approved the issuance of not-to-exceed $694,000,000 of general obligation bonds of the District (the "2006 Authorization"). On May 27, 2007, the District caused the issuance of the first series of bonds under the 2006 Authorization in the aggregate principal amount of $160,000,000 (the "Series A Bonds"). The following table shows future annual debt service payments with respect to the Series A Bonds.

Year Ending (May 1)	Annual Principal Payment	Annual Interest Payment	Total Annual Debt Service
2011	$2,315,000.00	$7,120,375.00	$9,435,375.00
2012	2,455,000.00	7,027,775.00	9,482,775.00
2013	2,745,000.00	6,929,575.00	9,674,575.00
2014	3,060,000.00	6,806,050.00	9,866,050.00
2015	3,395,000.00	6,668,350.00	10,063,350.00
2016	3,765,000.00	6,498,600.00	10,263,600.00
2017	4,160,000.00	6,310,350.00	10,470,350.00
2018	4,585,000.00	6,102,350.00	10,687,350.00
2019	5,010,000.00	5,873,100.00	10,883,100.00
2020	5,495,000.00	5,622,600.00	11,117,600.00
2021	5,990,000.00	5,347,850.00	11,337,850.00
2022	6,515,000.00	5,048,350.00	11,563,350.00
2023	7,075,000.00	4,722,600.00	11,797,600.00
2024	7,665,000.00	4,368,850.00	12,033,850.00
2025	8,250,000.00	4,023,925.00	12,273,925.00
2026	8,865,000.00	3,652,675.00	12,517,675.00
2027	9,510,000.00	3,253,750.00	12,763,750.00
2028	10,225,000.00	2,802,025.00	13,027,025.00
2029	10,970,000.00	2,316,337.50	13,286,337.50
2030	11,750,000.00	1,795,262.50	13,545,262.50
2031	12,585,000.00	1,237,137.50	13,822,137.50
2032	13,460,000.00	639,350.00	14,099,350.00
Total	$149,845,000.00	$104,167,237.50	$254,012,237.50

Lease Revenue Bonds. The 1999 Authority Bonds allocable to the District are payable from lease payments made pursuant to a lease/purchase agreement executed in connection with the issuance of the 1999 Authority Bonds. The following table lists a schedule of such future lease payments payable by the District

Year Ending (October 1)	Principal	Interest	Total
2010	$350,000.00	$197,771.25	$547,771.25
2011	365,000.00	183,071.25	548,071.25
2012	380,000.00	167,376.25	547,376.25
2013	400,000.00	150,656.25	550,656.25
2014	420,000.00	130,656.25	550,656.25
2015	440,000.00	111,231.25	551,231.25
2016	460,000.00	90,881.25	550,881.25
2017	480,000.00	69,606.25	549,606.25
2018	500,000.00	47,406.25	547,406.25
2019	525,000.00	24,281.25	549,281.25
Total	$4,320,000.00	$1,172,937.50	$5,492,937.50

The District is expected to make the scheduled lease payment necessary to pay its portion of the October 1, 2010 debt service payment on the 1999 Authority Bonds. Following this payment, and following the deposit and applications of proceeds of the Bonds as set forth in "THE PROJECTS AND REFUNDING PLAN – Palomar" in the front of part of this Official Statement, the obligation of the District to make lease payments with respect to the 1999 Authority Bonds will cease.

On July 18, 2001, the Authority issued $11,845,000 of its Lease Revenue Bonds, Series 2001A (the "2001 Authority Bonds"), of which $3,095,000 was attributable to the District. The 2001 Authority Bonds allocable to the District are payable from lease payments made pursuant to a lease/purchase agreement executed in connection with the issuance of the 2001 Authority Bonds. The following table a schedule of such future lease payments payable by the District.

Year Ending (April 1)	Principal Component	Interest Component	Total
2011	75,000.00	131,683.76	$206,683.76
2012	75,000.00	128,590.00	203,590.00
2013	80,000.00	125,365.00	205,365.00
2014	80,000.00	121,805.00	201,805.00
2015	85,000.00	118,125.00	203,125.00
2016	90,000.00	113,875.00	203,875.00
2017	95,000.00	109,600.00	204,600.00
2018	100,000.00	104,850.00	204,850.00
2019	105,000.00	99,850.00	204,850.00
2020	110,000.00	94,600.00	204,600.00
2021	115,000.00	89,100.00	204,100.00
2022	120,000.00	83,350.00	203,350.00
2023	130,000.00	76,600.00	206,600.00
2024	135,000.00	69,287.50	204,287.50
2025	145,000.00	61,693.76	206,693.76
2026	150,000.00	53,537.50	203,537.50
2027	160,000.00	45,100.00	205,100.00
2028	165,000.00	36,900.00	201,900.00
2029	175,000.00	28,443.76	203,443.76
2030	185,000.00	19,475.00	204,475.00
2031	195,000.00	9,993.76	204,993.76
Total	$2,570,000.00	$1,721,825.04	$4,291,825.04

Statement of Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc., effective as of September 1, 2010 for debt issued as of August 30, 2010. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

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PALOMAR COMMUNITY COLLEGE DISTRICT
Statement of Direct and Overlapping Bonded Debt

2009-10 Assessed Valuation:	$92,013,461,941
Redevelopment Incremental Valuation:	(13,969,608,384)
Adjusted Assessed Valuation:	$78,043,853,557

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 9/1/10
Metropolitan Water District	4.166%	$11,007,405
Palomar Community College District	**100.000**	**149,845,000**
Poway Unified School District School Facilities Improvement District No. 2002-1 and 2007-1	99.980	274,941,264
San Marcos Unified School District School Facilities Improvement District	93.951	11,272,259
Vista Unified School District	97.204	128,965,292
Escondido Union High School District	100.000	90,536,275
Fallbrook Union High School District	100.000	14,315,071
Bonsall Union School District	100.000	16,479,680
Escondido Union School District	100.000	49,439,622
Fallbrook Union School District	100.000	28,374,476
Other School Districts	Various	13,007,895
City of Escondido	100.000	78,860,000
City of San Diego and Open Space Park District	12.495	279,888
Palomar Pomerado Healthcare District	98.044	408,449,656
Other Special Districts	Various	4,271
Community Facilities Districts	Various	854,143,421
1915 Act Bonds (Estimate)	Various	32,353,163
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$2,162,274,638

DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
San Diego County General Fund Obligations	22.415%	$91,417,336
San Diego County Pension Obligations	22.415	183,867,591
San Diego County Superintendent of Schools Obligations	22.415	4,720,039
Palomar Community College District Certificates of Participation	**100.000**	**6,890,000** (1)
Poway Unified School District Certificates of Participation	97.545	124,336,212
Ramona Unified School District Certificates of Participation	100.000	23,393,360
San Marcos Unified School District Certificates of Participation	94.682	53,389,596
Escondido Union High School District Certificates of Participation	100.000	60,955,000
Escondido Union School District Certificates of Participation	100.000	27,365,000
Other School District Certificates of Participation	Various	9,014,638
City of Escondido Certificates of Participation	100.000	59,327,090
City of Oceanside Certificates of Participation and Pension Obligations	28.073	23,338,489
City of Poway Certificates of Participation	100.000	47,395,000
City of San Diego General Fund Obligations	12.495	65,077,084
City of San Marcos General Fund Obligations	100.000	50,140,000
City of Santee General Fund Obligations	0.006	90
City of Vista General Fund Obligations	100.000	116,300,000
Fallbrook Sanitary District Certificates of Participation	100.000	4,625,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		$951,551,525
COMBINED TOTAL DEBT		$3,113,826,163 (2)

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

Ratios to 2009-10 Assessed Valuation:
Direct Debt ($149,845,000)...0.16%
Total Overlapping Tax and Assessment Debt..............................2.35%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($156,735,000) 0.20%
Combined Total Debt..3.99%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: $0

Source: California Municipal Statistics, Inc

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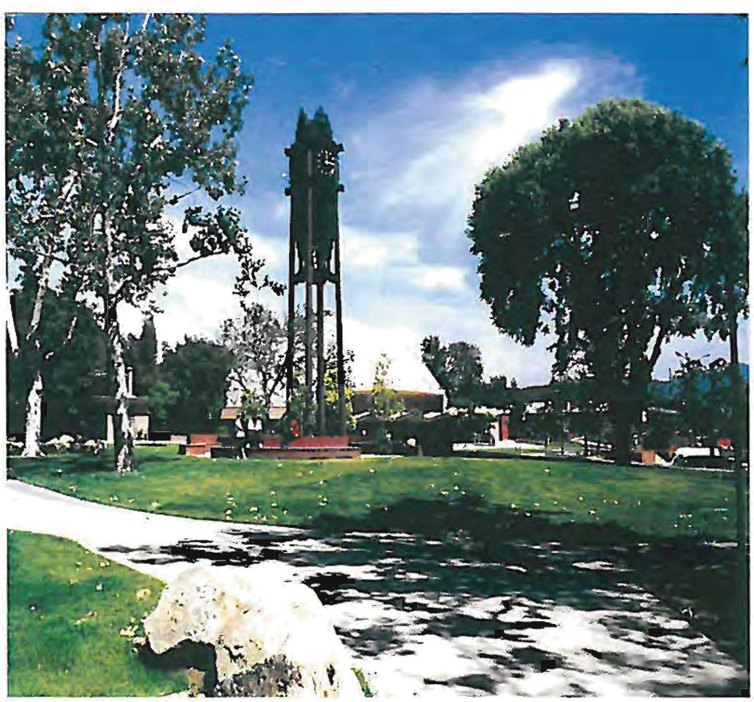
APPENDIX D

FISCAL YEAR 2008-09 AUDITED FINANCIAL STATEMENTS OF PALOMAR COMMUNITY COLLEGE DISTRICT

PALOMAR COMMUNITY COLLEGE DISTRICT

SAN DIEGO COUNTY

REPORT ON
AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE
June 30, 2009



PALOMAR COMMUNITY COLLEGE DISTRICT

AUDIT REPORT
June 30, 2009

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PALOMAR COMMUNITY COLLEGE DISTRICT

AUDIT REPORT
June 30, 2009

CONTENTS

VICENTI ♦ LLOYD ♦ STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

INDEPENDENT AUDITORS' REPORT

The Board of Trustees
Palomar Community College District
1140 W. Mission Road
San Marcos, CA 92069-1487

We have audited the accompanying basic financial statements of the Palomar Community College District, as of and for the year ended June 30, 2009 as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the basic financial statements listed in the aforementioned table of contents present fairly, in all material respects, the financial position of the Palomar Community College District as of June 30, 2009, and the results of its operations, changes in net assets and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12 to the financial statements, the Palomar Community College District adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2009 on our consideration of the Palomar Community College District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

2210 E. Route 66, Suite 100, Glendora, CA 91740
Tel 626.857.7300 | Fax 626.857.7302 | E-Mail INFO@VLSLLP.COM | Web WWW.VLSLLP.COM

Board of Trustees
Palomar Community College District

The required supplementary information, such as the management's discussion and analysis and the schedule of funding progress, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Palomar Community College District's basic financial statements. The supplementary section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The supplementary information, including the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 14, 2009

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

Introduction

The following discussion and analysis provides an overview of the financial position and activities of the Palomar Community College District (the "District") for the year ended June 30, 2009. This discussion has been prepared by college administration and should be read in conjunction with the financial statements and notes thereto which follow this section.

The District is using the Business Type Activity (BTA) model in which financial reports are generated using the full accrual basis of accounting. The California Community College Chancellor's Office, through its Fiscal Standards and Accountability Committee, recommended that all community college districts implement the reporting standards under the BTA model. To comply with the recommendation of the Chancellor's Office and to report in a manner consistent with other California Community College Districts, the District has adopted the BTA reporting model for these financial statements.

The College

The California Community Colleges system is comprised of 72 districts, 112 campuses, and 68 approved Education Centers. Palomar College is one of eight Community College districts located in San Diego County. Palomar College currently operates a campus in the City of San Marcos, an approved Education Center in the City of Escondido, and six outreach sites throughout north San Diego County in the following communities: Rancho Peñasquitos, Fallbrook, Ramona, Pauma Valley, Borrego Springs, and Camp Pendleton. In addition, the District has received approval for its North Education Center which is currently under development in the northern part of its geographical boundaries.

The Palomar College District serves more than 31,000 full-time and part-time students each fall and spring semester, while about 16,000 students attend during summer semester. Approximately 27% of our students are enrolled full-time, while about 56% are enrolled part-time in credit classes, and 17% are enrolled in non-credit classes. About 57% of our students are aged 18 through 24, while 43% are 24 or older.

Palomar College is currently offering over 250 Associate Degree and Certificate programs; in addition, it is currently offering not-for-credit community development and personal enrichment classes for life-long learning. Palomar College is accredited through the Accrediting Commission for Community and Junior Colleges and the Western Association of Schools and Colleges.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

Palomar College has transfer agreements with the California State University and University of California systems, and our high-level coursework in transferable classes fully prepares our students for success at four-year colleges and universities.

The California Community College system offers the most affordable education among community colleges throughout the United States. California residents currently pay an enrollment fee of $26 per credit. Out-of-state residents pay the enrollment fee plus tuition fees of $190 per credit.

Financial and Enrollment Highlights

As required by the Governmental Accounting Standards Board (GASB) reporting standards, the annual report consists of three basic financial statements that provide information on the District as a whole:

- The Statement of Net Assets
- The Statement of Revenue, Expenses and Changes in Net Assets
- The Statement of Cash Flows

Each of these statements will be discussed and will include comparisons between the prior and current year, along with selected highlights.

Two new buildings are in the midst of construction on the San Marcos campus. A new Health Sciences building will be a two story building and will be the first one fully funded by monies received from the first issuance of Proposition M bonds. The Health Sciences building is scheduled to begin offering classes in the fall 2010. A second building, the Multi-Disciplinary Instructional Building, will be three stories and mostly funded from the sale of State Construction Bonds, with some augmentation from Proposition M bond money. Classes are scheduled to be offered in that building beginning with the spring 2011 semester. Progress continues to be made towards opening Palomar's North Education Center. The Environmental Impact Report (EIR) has been certified by the District, and a General Plan Amendment identified in the EIR has been approved by the County of San Diego. Construction permitting is anticipated to begin in spring 2010 with bids for the construction of the roadway and grading to begin shortly thereafter. A site for a South Education Center, which is included in Master Plan 2022 and the Proposition M resolution approved by the voters, has yet to be identified and purchased; however, the District has a Broker firm actively exploring possibilities.

The State of California's economic and fiscal crisis intensified during fiscal year 2008-09 which impacted Palomar College enormously. Even though growth revenue was earned for fiscal year 2008-09, there was also a 1.3% deficit coefficient applied to the apportionment revenue actually paid by the State to Palomar College. The State also raised tuition to $26 per unit from $20 per unit which caused a corresponding increase in the number of students applying for financial aid.

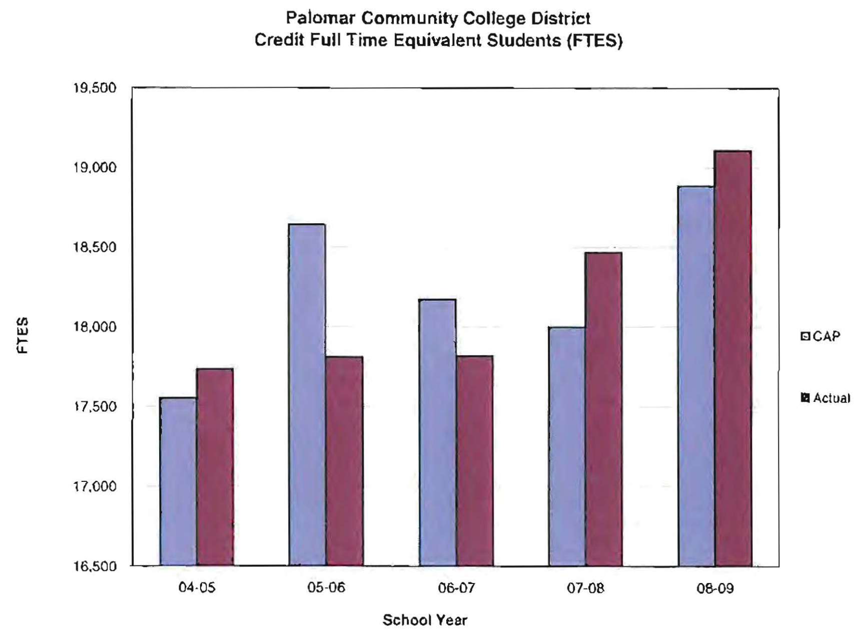
PALOMAR COMMUNITY COLLEGE DISTRICT

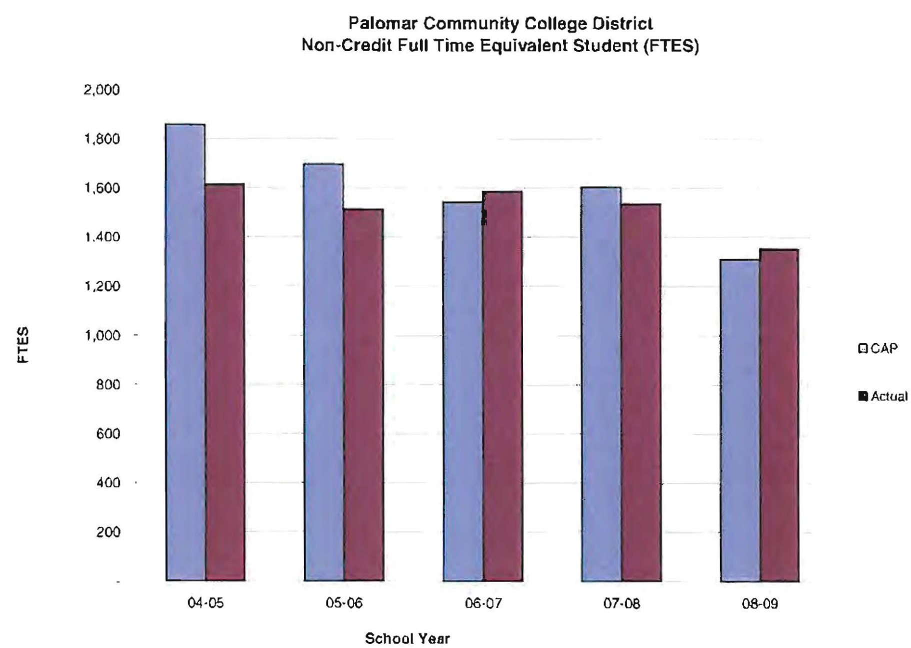
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

For fiscal year 2008-09 the District's total base full-time equivalent students (FTES) increased approximately 3.46% for credit and decreased 11.88% for non-credit courses for an overall increase of 2.28%. A District's "CAP" for the year represents a benchmark for growth that the State has determined it will fund each college/district throughout the Community College system in a given fiscal year. The amount a single district receives is contingent upon how much is budgeted by the State and how much growth is experienced both system and District-wide. The percentage of growth funded and how it is distributed can change several times during a fiscal year depending on various factors and is subject to change until the State closes out all apportionment reporting for a given budget year. For these reasons not only does the District not assume growth in developing its budget until it is actually received but the comparisons of its FTES to CAP can vary throughout a budget year based upon how much the State predicts its available funding to be at a given point in time. Consequently, the final funded growth percentage is not known at the District level until February of the year after the fiscal year has ended (in this case February 2010), which is when all the final FTES has been reported and calculated system-wide. The State then constrains growth system-wide and by individual district/college based upon funds provided for in the fiscal year's Budget Act. For fiscal year 2008-09, the District's growth exceeded the credit "CAP" by 222.11 FTES and non-credit FTES were over "CAP" by 43.58 FTES. On the following page are charts that show the trend for both credit and non-credit FTES for the past 5 years.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009





Statement of Net Assets

The *Statement of Net Assets* presents the assets, liabilities, and net assets of the District as of the end of the fiscal year and is prepared using the full accrual basis of accounting, which is similar to the accounting basis used by most private-sector organizations. The *Statement of Net Assets* is a point of time financial statement whose purpose is to present to the readers a fiscal snapshot of the District. The *Statement of Net Assets* presents end-of-year data concerning assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities).

From the data presented, readers of the *Statement of Net Assets* are able to determine the assets available to continue the operations of the District. Readers are also able to determine how much the District owes vendors and employees. Finally, the *Statement of Net Assets* provides a picture of the net assets and their availability for expenditure by the District.

The difference between total assets and total liabilities (net assets) is one indicator of the current financial condition of the District; the change in net assets is an indicator of whether the overall financial condition has improved or worsened during the year. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allocation for depreciation expense.

The *Net Assets* listed on the *Statement of Net Assets* are divided into three major categories. The first category, *Invested in Capital Assets net of related debt*, provides the equity amount in property, plant, and equipment owned by the District with the debt related to those amounts subtracted. The second category is *Restricted*; these net assets are available for expenditure by the District, but must be spent for purposes as determined by external entities and/or donors that have placed time or purpose restrictions on the use of the assets. The final category is *Unrestricted*; these net assets are available to the District for any lawful purpose of the District.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

A Statement of Net Assets as of June 30, 2009 is summarized below:

	(In Millions of Dollars) 2008	2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 156.8	$ 142.6
Investments	0.7	0.7
Receivables	9.8	19.9
Prepaid expenses	0.3	0.6
Capitalized fees	0.1	0.1
Total current assets	167.7	163.9
Non-current assets:		
Restricted cash and cash equivalents	11.6	12.7
Capitalized fees	1.4	1.4
Capital assets, net	103.8	120.3
Total non-current assets	116.8	134.4
TOTAL ASSETS	$ 284.5	$ 298.3
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 9.9	$ 10.6
Deferred revenue	1.0	1.2
Compensated absences	3.9	3.6
Long-term liabilities	8.0	3.6
Total current liabilities	22.8	19.0
Non-current liabilities:		
Long-term liabilities less current portion	164.9	163.1
Total non-current liabilities	164.9	163.1
TOTAL LIABILITIES	187.7	182.1
NET ASSETS		
Invested in capital assets, net of related debt	50.1	63.3
Restricted	24.9	27.4
Unrestricted	21.8	25.5
TOTAL NET ASSETS	96.8	116.2
TOTAL LIABILITIES AND NET ASSETS	$ 284.5	$ 298.3

- Cash and cash equivalents decreased approximately 9% over the prior year which is reflective of Prop M bond funds being spent down. Over 99% of the cash balance is cash deposited in the San Diego County Treasury; approximately 1% is in other various investments related to Certificates of Participation (COP) and Revenue Bonds, with the remaining amounts being cash deposits with various financial institutions.

- The majority of the accounts receivable balance is usually from federal and state sources for grant and entitlement programs. However, for fiscal year 2008-09, most of the increase in accounts receivable was due to the cash flow problems the State was experiencing. At year end almost $8 million was due from the State for expenditures on the Multi-Disciplinary Instructional Building and over $6 million was due from the State for apportionment. The State is deferring more and more apportionment payments in order to cope with their own cash flow crisis.

- Accounts payable represents amounts due as of the fiscal year end for goods and services received as of June 30, 2009. The total current liabilities of $19 million consist of the above mentioned accounts payable as well as other accrued liabilities and the current portion of General Obligation Bonds, Certificate of Participation (COP) and leases payable. Also included are amounts payable to or on behalf of employees for wages, benefits, accrued vacation, or load banking earned but not yet paid. The $3.8 million decrease in total current liabilities was almost entirely due to the fact that the current portion of the long-term liability for the Prop M bond payments is much lower in 2009-10 than it was in 2008-09.

- The District currently has three debt issues outstanding that amount to $164.7 million; $4.7 million of this total is related to Certificates of Participation (COP), $2.6 million is related to Revenue Bonds and $157.4 million is related to the debt created by the General Obligation Bonds issued in May 2008 for Proposition M, Series A. An additional long term debt recognized this year was $0.7 million related to Other Post-Employment Benefits (OPEB). Additional information regarding long-term debt is included in the Debt Administration section of this discussion and analysis.

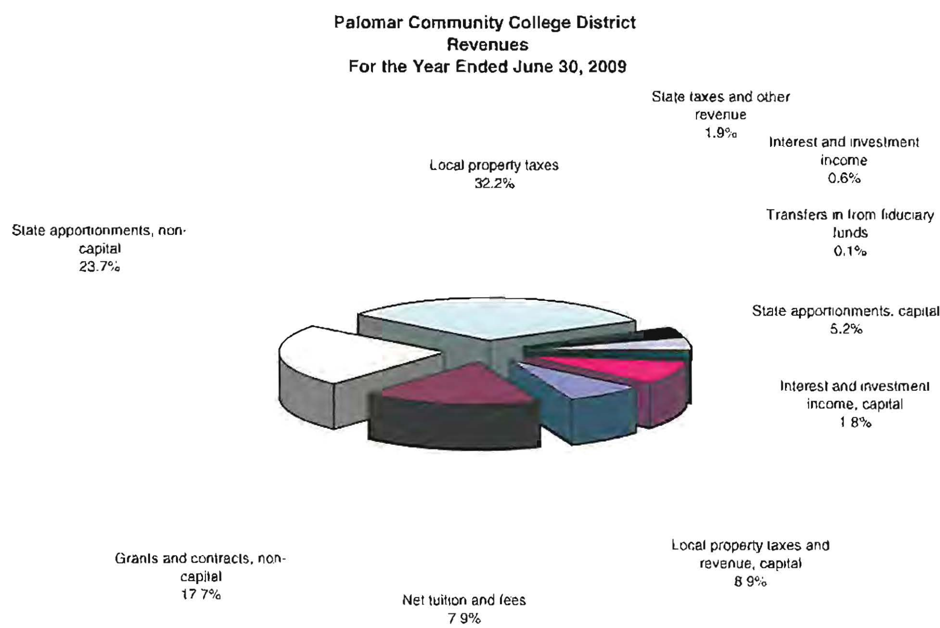
Statement of Revenues, Expenses, and Changes in Net Assets

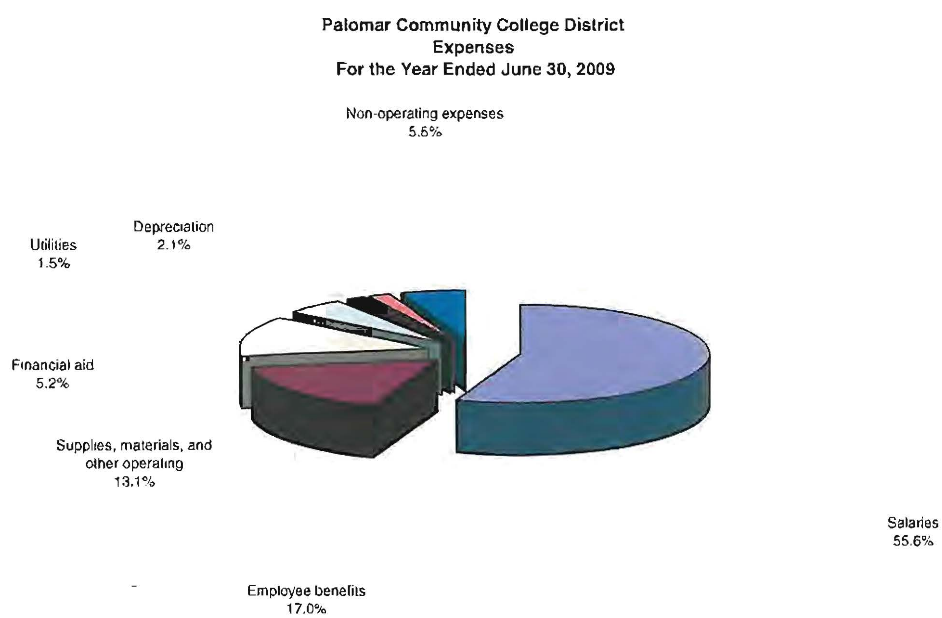
Changes in total net assets as presented on the *Statement of Net Assets* are based on the activity presented in the *Statement of Revenues, Expenses, and Changes in Net Assets*. The purpose of this statement is to present the operating and non-operating revenues earned, whether received or not, by the District; the operating and non-operating expenses incurred, whether paid or not, by the District; and any other revenues, expenses, gains and/or losses earned or incurred by the District. Thus, this statement presents the District's results of operations.

Generally, operating revenues are earned for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues earned and to fulfill the mission of the District. Non-operating revenues are those received or pledged for which goods and services are not provided; for example, state appropriations are non-operating because they are provided by the legislature to the District without the legislature directly receiving commensurate goods and services for those revenues.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009





PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

(In Millions of Dollars)

	2008	2009
Operating Revenue		
Net tuition and fees	$ 11.9	$ 13.0
Grants and contracts, non-capital	26.4	29.0
Total operating revenues	38.3	42.0
Operating Expenses		
Salaries and benefits	106.7	105.2
Supplies and other expenses	24.0	21.3
Financial aid	5.8	7.5
Depreciation	2.6	3.1
Total operating expenses	139.1	137.1
Operating Loss	(100.8)	(95.1)
Non-operating revenues (expenses)		
State apportionments, non-capital	33.0	38.9
Local property taxes	52.6	53.0
State taxes and other revenue	3.3	3.1
Interest and investment income	2.3	1.0
Transfers, net	0.2	0.2
Other non-operating expenses, net	(7.7)	(7.5)
Total non-operating revenues (expenses)	83.7	88.7
Other revenues, expenses, gains or losses		
State apportionments, capital	3.9	8.6
Local property taxes, capital	10.8	14.7
Interest and investment income, capital	6.1	2.9
Loss on disposal of fixed asset		(0.4)
Total other revenues, expenses, gains or losses	20.8	25.8
Change in Net Assets	3.7	19.4
Net assets, beginning of year	93.1	96.8
Net assets, end of year	$ 96.8	$ 116.2

- Tuition and fees are generated by the resident, non-resident, and international students attending Palomar College, including fees such as health fees, parking fees, community service classes and other related fees. For fiscal year 2008-09 the State increased tuition from $20 to $26 per unit.

- Non-capital grants and contracts are primarily those received from federal and state sources and used in the instructional program. Increases were due to increases in grant revenues as compared to fiscal year 2007-08.

- Total operating expenses decreased slightly by 1.5% over the prior fiscal year as a result of several factors. Palomar College enacted a modified hiring freeze as of March 2008 and in April 2008 required "other" operating expenditures to be reviewed and approved by the appropriate Vice President. Personnel costs made up 83% of the total operating expenses excluding depreciation and financial aid for all funds. Operating expenses include personnel costs, supplies, other services, and capital outlay items below the capitalization threshold, insurance, utilities, and depreciation expense. Financial Aid increased as more students were seeking tuition relief due to the State's economic downturn impacting their personal finances.

- State Apportionments, non-capital represents the amount received from the State based on FTES. Palomar College was notified in fiscal year 2008-09 that effective fiscal year 2007-08 it had moved to a large single college district (20,000 FTES) as defined in SB361 resulting in an increase of $1,107,182 in basic apportionment allocation for each fiscal year being received and reflected in fiscal year 2008-09 revenue. Local property taxes are received through the Auditor-Controller's Office for San Diego County. The amount received for property taxes is deducted from the total state general apportionment amount calculated by the state for the District. As the County started to experience decreased property valuations, and less volume of sales, the property taxes started to show a much less increase than in past years. This year the increase was only .8% even though normally valuations automatically increase 2% per year.

- The revenue category entitled "State apportionments, capital" is the amount of capital outlay, scheduled maintenance, architectural barrier removal and hazardous substance funding received from the State through the Department of Finance. The State apportionment money increased significantly due to the construction of the State funded Multi-Disciplinary Instructional Building. Local Property Taxes, Capital increased significantly due to the assessment of taxes for the Prop M bond. Interest revenue significantly dropped due to a decrease in interest rates and the spending down of Prop M bond monies.

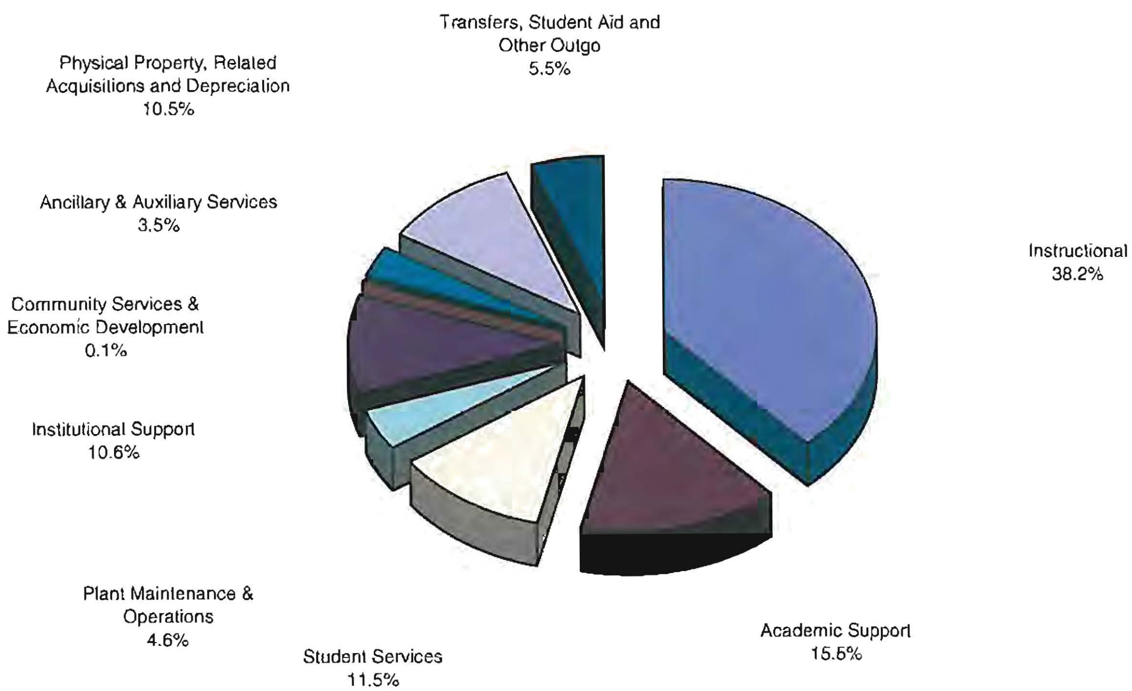
- Functional expenses are presented on the next page by activity as adjusted by external auditors for GASB compliance requirements for financial reporting purposes. Governmental funds included are General, Debt Service, Child Development, Capital Outlay, Energy Conservation, Prop M, Retiree Benefits, and Student Financial Aid. Additional detail on all expenditures by object code for fiscal year 2008-09 is included in Note 14 of the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2009

Activity	Code	2006-07 Total	% of Total	2007-08 Total	% of Total	2008-09 Total	% of Total
Instructional	01-59	$ 48,025,493	39.1%	$ 54,111,711	38.9%	$ 52,435,805	38.2%
Academic Support	60-62	17,421,908	14.2%	21,850,432	15.7%	21,193,146	15.5%
Student Services	63-64	14,511,984	11.8%	16,990,025	12.2%	15,791,296	11.5%
Plant Maintenance & Operations	65	4,948,036	4.0%	8,479,407	6.1%	6,243,797	4.6%
Institutional Support	66-67	12,849,072	10.5%	16,630,191	12.0%	14,570,653	10.6%
Community Services & Economic Development	68	97,632	0.1%	117,907	0.1%	167,284	0.1%
Ancillary & Auxiliary Services	69-70	3,610,580	2.9%	5,290,245	3.8%	4,817,292	3.5%
Physical Property and Related Acquisitions	71	16,957,541	13.8%	11,445,052	8.2%	14,459,961	10.5%
Transfers, Student Aid and Other Outgo	72-73	4,365,662	3.6%	4,229,840	3.0%	7,496,032	5.5%
Total		$ 122,787,908	100.0%	$ 139,144,810	100.0%	$ 137,175,266	100.0%

Palomar Community College District
Expenditures by Function/Activity
Fiscal Year 2008-09



Statement of Cash Flows

The Statement of Cash Flows provides information about cash receipts and cash payments during the fiscal year. This Statement also helps users assess the District's ability to generate positive cash flows, meet obligations as they come due and determine the need for external financing.

The Statement of Cash Flows is divided into five parts. The first part reflects operating cash flows and shows the net cash provided by the operating activities of the District. The second part details cash received for non-operating, non-investing, and non-capital financing purposes. The third part shows cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth provides information from investing activities and the amount of interest received. The fifth and final section reconciles the net cash provided by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

A Statement of Cash Flows for the fiscal year ended June 30, 2008 and 2009 is summarized and presented below:

	(In Millions of Dollars)	
	2008	**2009**
Cash Provided by (Used in)		
Operating activities	$ (95.9)	$ (93.5)
Non-capital financing activities	91.2	96.1
Capital and related financing activities	4.9	(16.5)
Investing activities	1.7	1.0
Net increase in cash and cash equivalents	1.9	(12.9)
Cash balance, beginning of year	166.4	168.3
Cash balance, end of year	$ 168.3	$ 155.4

- Cash receipts from operating activities are from student tuition and from federal, state, and local grants. Uses of cash are payments to employees, vendors, and students related to the instructional programs. As a result of the modified hiring freeze and restrain from incurring other expenditures unless critical to operations, the cash used by operating activities decreased.

- With the aforementioned additional apportionment related to reaching a 20,000 FTES threshold as a large single college district, and the growth revenue received in fiscal year 2008-09 for fiscal year 2007-08, apportionment increases is what mainly contributed to the increase in non-capital financing activities.

- The primary amounts included in capital and related financing activities are any financing activities and the purchase of capital assets (building improvements and equipment). These expenditures increased as the spending of Prop M funds increased and the building of the State funded Multi-Disciplinary Instructional Building started.

- Cash from investing activities is interest earned on cash in bank and cash invested through the San Diego County Treasury and on investments with the Local Agency Investment Fund (LAIF) and other various investments and bank accounts.

District's Fiduciary Responsibility

The District is the trustee, or fiduciary, for certain funds held on behalf of students, clubs, and donors for student loans and scholarships. The District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. These activities are excluded from the District's other financial statements because these assets may not be used to finance district operations. The District is responsible for ensuring that assets reported in these funds are used for their intended purposes.

Capital Asset and Debt Administration

Capital Assets

- As of June 30, 2009, the District had over $120.3 million in net capital assets. Total capital assets of $157.4 million consist of land, buildings, and building improvements, construction in progress, vehicles, data processing equipment, and other office equipment. Accumulated depreciation related to these assets is $37.1 million. Depreciation expense of $3.1 million was recorded for the fiscal year.

- Site Improvements decreased due to the demolition of an existing building to be replaced by the new Health Sciences Building.

- Construction was started on both the Health Sciences Building and the Multi-Disciplinary Instructional Building which explains the huge increase in Construction In Progress.

Note 5 to the financial statements provides additional information on capital assets. A summary of capital assets, net of depreciation, is presented below:

	(In Millions of Dollars)	
	2008	**2009**
Land and improvements	$ 45.4	$ 48.7
Site and site improvements	46.7	45.1
Equipment	4.4	4.0
Construction in progress	7.3	22.5
Net capital assets	$ 103.8	$ 120.3

Debt

At June 30, 2009, the District had $165.4 million in debt; $157.4 in General Obligations Bonds, $4.7 million from Certificates of Participation (COP), $2.6 million in Revenue Bonds payable and $0.7 million in Other Post-Employment Benefits (OPEB). The recording of OPEB liabilities in the fiscal year 2008-09 financial statements brings Palomar College in compliance with GASB 45, which requires districts to disclose a liability for future retiree benefits. See Note 12 to the financial statements for addition information.

Note 10 to the financial statements provide additional information on long-term liabilities. A summary of long-term debt is presented below:

	(In Millions of Dollars) 2008	2009
Long-Term Debt		
Capital leases	$ 0.1	$ -
COP payable	4.9	4.7
Revenue bonds payable	2.7	2.6
General obligation bond	163.9	157.4
Other post-employment benefits (OPEB)		0.7
Total long-term debt	171.6	165.4
Less current portion	6.7	2.3
Long-term portion	$ 164.9	$ 163.1

Economic Factors that May Affect the Future

The economic position of the State continues to be of high concern not only to Palomar College, but to all community colleges statewide. The State has already enacted several cost cutting measures for fiscal year 2009-2010, including a 3.39% reduction in funded FTES for each district/college, significant cuts to categorical programs, and no COLA adjustment for the fiscal year. These State cuts have necessitated expenditure cuts at Palomar, including a reduction in the amount of class sections being offered. As the State continues to experience further fiscal and budget declines it is anticipated that there could be further reductions enacted before the budget year ends. Consequently, the fluidity of the State's current situation is making it difficult for the District to plan beyond the current fiscal year's budget.

With no cost of living increase projected from the State for at least the next year, increasing utility rates, potential water shortages, and rising electricity costs and increases in power volume usage as new buildings are completed, the District must plan how to address these concerns in future budget years. Also double digit increases to health care costs, along with increases in the PERS rates add to an atmosphere of uncertainty.

The housing market continues to be a concern nationwide. Even though San Diego County held up well as compared to other counties during fiscal year 2008-09 it began to experience the effects of property valuation and sales declines. In addition, the County's ability to collect property taxes became more difficult as a result of the State's economic downturn. However, two recent articles in the San Diego Union reported via two indicators that things may be beginning to turn around in the County even though only slightly. The first is the fact that San Diego County homeowners will experience a slight decrease in property taxes for 2010 as a result of a tax-reduction measure passed in 1978 by the voters. This decrease will provide a bit of relief to taxpayers who are struggling due to the economic situation. And, for the seventh month in a row, San Diego County's economic outlook improved slightly during the month of October 2009. However, despite the modest growth, the job market, the primary driver of a local economy, continued to weaken.

For fiscal year 2009-10 the State imposed a 3.39% workload reduction in the amount of FTES students funded through the apportionment process. This translates to a smaller apportionment allocation in Palomar College's funded FTES base for fiscal year 2009-10 and in subsequent fiscal years unless growth in apportionment is provided for by the State, earned by the college, and eventually paid by the State.

In developing the fiscal year 2009-10 adopted budget, Palomar College continued to focus on efforts to control operating costs, while serving students, ensuring fiscal stability, and maintaining jobs for all full-time employees. Also, it was assumed that the modified hiring freeze would continue in fiscal year 2009-10. The budget for fiscal year 2009-10 was adopted as a balanced budget, using a portion of the beginning fund balance to offset budgeted expenses in excess of budgeted revenues. The cuts the categorical programs experienced from the State were assumed to be backfilled, not only with federal ARRA monies received, but with general funds as well. As these State categorical cuts are expected to continue through fiscal year 2012-13 and the ARRA money was only allocated by the Federal Government for fiscal year 2009-10, the general fund will have to increase its funding of the categorical areas in fiscal year 2010-11 and potentially in subsequent fiscal years.

Other than the items discussed above, the District is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on the financial position or results of operations during this fiscal year beyond those unknown variations having a global effect on virtually all types of business operations. Management will maintain a close watch over resources to maintain our ability to react to internal and external issues if and when they arise in order to ensure the fiscal stability of the District.

BASIC FINANCIAL STATEMENTS

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF NET ASSETS
June 30, 2009

ASSETS	
Current assets:	
Cash and cash equivalents	$ 142,626,572
Investments	721,993
Accounts receivable, net	19,870,175
Due from fiduciary funds	32,203
Prepaid expenses	578,227
Capitalized fees	62,601
Total current assets	163,891,771
Non-current assets:	
Restricted cash and cash equivalents	12,749,101
Capitalized fees	1,367,338
Capital assets, net of accumulated depreciation	120,332,588
Total non-current assets	134,449,027
TOTAL ASSETS	$ 298,340,798
LIABILITIES	
Current liabilities:	
Accounts payable	$ 6,258,711
Accrued liabilities	4,292,301
Deferred revenue	1,188,722
Compensated absences	3,660,710
Accrued interest payable	1,290,572
COP payable - current portion	340,000
Revenue bonds payable - current portion	70,000
General obligation bonds payable - current portion	1,905,000
Total current liabilities	19,006,016
Non-current liabilities:	
COP payable	4,320,000
Revenue bonds payable	2,570,000
General obligation bonds payable, including premium	155,452,099
Other post-employment benefits (OPEB)	759,905
Total non-current liabilities	163,102,004
TOTAL LIABILITIES	182,108,020
NET ASSETS	
Invested in capital assets, net of related debt	63,283,386
Restricted for:	
Capital projects	11,073,804
Debt service	5,872,449
Other special services	10,460,309
Unrestricted	25,542,830
TOTAL NET ASSETS	116,232,778
TOTAL LIABILITIES AND NET ASSETS	$ 298,340,798

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the Fiscal Year Ended June 30, 2009

OPERATING REVENUES	
Tuition and fees (gross)	$ 15,544,761
Less: scholarship discounts & allowances	(2,540,350)
Net tuition and fees	13,004,411
Grants and contracts, non-capital:	
Federal	10,259,732
State	13,965,690
Local	4,822,497
TOTAL OPERATING REVENUES	42,052,330
OPERATING EXPENSES	
Salaries	80,582,368
Employee benefits	24,607,560
Supplies, materials, and other operating expenses and services	19,097,352
Financial aid	7,551,991
Utilities	2,248,784
Depreciation	3,087,211
TOTAL OPERATING EXPENSES	137,175,266
OPERATING LOSS	(95,122,936)
NON-OPERATING REVENUES (EXPENSES)	
State apportionments, non-capital	38,974,983
Local property taxes	52,967,023
State taxes and other revenue	3,111,333
Interest and investment income	1,062,473
Transfers in from fiduciary funds, net	156,817
Interest expense	(7,537,990)
TOTAL NON-OPERATING REVENUES (EXPENSES)	88,734,639
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS AND LOSSES	(6,388,297)
OTHER REVENUES, EXPENSES, GAINS AND LOSSES	
State apportionments, capital	8,624,962
Local property taxes and revenue, capital	14,700,590
Interest and investment income, capital	2,918,790
Loss on disposal of fixed asset	(408,764)
TOTAL OTHER REVENUES, EXPENSES, GAINS AND LOSSES	25,835,578
INCREASE IN NET ASSETS	19,447,281
NET ASSETS - BEGINNING OF YEAR	96,785,497
NET ASSETS - END OF YEAR	$ 116,232,778

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS

For the Fiscal Year Ended June 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES	
Tuition and fees	$ 12,118,911
Federal grants and contracts	10,137,771
State grants and contracts	13,908,886
Local grants and contracts	5,290,518
Payments to suppliers	(21,149,130)
Payments to/on-behalf of employees	(106,373,625)
Payments to/on-behalf of students	(7,582,749)
Net amounts due from fiduciary funds	103,529
Net cash used by operating activities	(93,545,889)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES	
State apportionments and receipts	34,352,699
Property taxes	52,967,023
Grants and gifts for other than capital purposes	8,635,984
Net transfers from fiduciary funds	156,817
Net cash provided by non-capital financing activities	96,112,523
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State apportionment for capital purposes	800,978
Interest on capital investments	3,707,983
Property taxes - capital	14,862,968
Costs on issuance	(1,498)
Purchase of capital assets	(21,312,671)
Principal paid on capital debt	(6,712,496)
Interest paid on capital debt	(7,840,806)
Net cash used by capital and related financing activities	(16,495,542)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	940,517
Net cash provided by investing activities	940,517
NET DECREASE IN CASH AND CASH EQUIVALENTS	(12,988,391)
CASH BALANCE - BEGINNING OF YEAR	168,364,064
CASH BALANCE - END OF YEAR	$ 155,375,673

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2009

Reconciliation of Operating Loss to
Net Cash Used by Operating Activities

CASH USED BY OPERATING ACTIVITIES

Operating loss	$ (95,122,936)
Adjustments to reconcile net loss to net cash used by operating activities:	
Depreciation expense	3,087,211
Changes in assets and liabilities:	
Receivables, net	(614,056)
Due to fiduciary funds (net)	(103,528)
Prepaid expenses	53,872
Accounts payable and accrued liabilities	(1,202,642)
Deferred revenue	179,743
Compensated absences	176,447
Net cash used by operating activities	$ (93,545,889)

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2009

ASSETS		
Cash in county treasury	$	1,720,618
Cash on hand and in banks		187,642
Cash collections awaiting deposit		9,326
Accounts receivable:		
Miscellaneous		42,276
TOTAL ASSETS	$	1,959,862
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$	15,651
Due to governmental funds		32,203
Deferred revenue		62,059
Amounts held for others		112,770
TOTAL LIABILITIES		222,683
NET ASSETS		
Unrestricted		1,737,179
TOTAL NET ASSETS		1,737,179
TOTAL LIABILITIES AND NET ASSETS	$	1,959,862

See the accompanying notes to the financial statements.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
For the Fiscal Year Ended June 30, 2009

ADDITIONS		
Student fees	$	241,902
Interest and investment income		44,248
Contributions and other local revenues		470,258
TOTAL ADDITIONS		756,408
DEDUCTIONS		
Supplies and materials		24,029
Other operating expenses and services		31,049
Capital outlay		6,878
Student financial aid		469,780
TOTAL DEDUCTIONS		531,736
Excess of additions over deductions		224,672
OTHER SOURCES (USES)		
Transfers in from governmental funds		34,000
Transfers out to governmental funds		(190,817)
TOTAL OTHER SOURCES (USES)		(156,817)
CHANGE IN NET ASSETS		67,855
NET ASSETS - BEGINNING OF YEAR		1,669,324
NET ASSETS - END OF YEAR	$	1,737,179

See the accompanying notes to the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. REPORTING ENTITY

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Trustees.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB Statement No. 14, *The Financial Reporting Entity*. The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Based upon the requirements of GASB Statement No. 14, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the District, including their ongoing financial support to the District or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.

2. The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. REPORTING ENTITY (continued)

3. The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

Based upon the application of the criteria listed above, the following potential component unit has been excluded from the District's reporting entity:

Palomar College Foundation – The Foundation is a separate not-for-profit corporation. The Foundation is not included as a component unit because the third criterion above was not met.

Separate financial statements for the Foundation may be obtained through the District.

B. FINANCIAL STATEMENT PRESENTATION

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments* and including Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis of Public College and Universities*, issued in June and November 1999 and *Audits of State and Local Governmental Units* issued by the American Institute of Certified Public Accountants. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective replaces the fund-group perspective previously required. Fiduciary activities, with the exception of the Student Financial Aid Fund and the Retiree Benefits Fund, are excluded from the basic financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING

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

For financial reporting purposes, the District is considered a special-purpose government engaged in business-type activities. Accordingly, the District's basic financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

For internal accounting purposes, 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*.

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities.

By State law, the District's Governing Board must approve a budget no later than September 15. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with generally accepted accounting principles (GAAP).

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object account.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

In accordance with GASB Statement No. 20, the District follows all GASB statements issued prior to November 30, 1989 until subsequently amended, superseded or rescinded. The District also applies all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless FASB conflicts with GASB.

1. Cash and Cash Equivalents

Cash in the County Treasury is recorded at fair value, in accordance with the requirements of GASB Statement No. 31. The District's cash and cash equivalents, are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

2. Accounts Receivable

Accounts receivable consists primarily of amounts due from the Federal government, State and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the District's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Student loans receivable are included in accounts receivable and consist of loan advances to students awarded under the student financial aid programs the District administers for federal agencies. Student loans receivable are recorded net of cancelled principal. The receivables are held in trust for the awarding federal agency.

3. Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2009, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

4. Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents are those amounts externally restricted as to use pursuant to the requirements of the District's grants, contracts and debt service requirements.

5. Capitalized Fees

Amounts paid for fees and underwriting costs associated with long-term debt are capitalized and amortized to interest expense in the government-wide statements over the life of the liability. These costs are amortized using the straight-line method. For the fiscal year 2008-09, amortization of $62,601 was recognized.

6. Capital Assets

Capital assets are recorded at cost at the date of acquisition. Donated capital assets are recorded at their estimated fair value at the date of donation. For equipment, the District's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Buildings, renovations to building and infrastructure with a unit cost of $100,000 or more, and land and site improvements, with a unit cost of $50,000 or more, that significantly increase the value or extend the useful life of the structure, are capitalized. Interest incurred during construction is not capitalized.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend the asset's life is recorded in operating expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method with a half-year convention over the estimated useful lives of the assets, generally 50 years for buildings and certain major building and site improvements, 15 years for modular buildings and land improvements, 5 to 8 years for equipment and 3 years for technology. Land and construction in progress are not depreciated.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

7. Accounts Payable and Accrued Interest Payable

Accounts payable consists of amounts due to vendors and also includes accrued interest on the general obligation bonds. These amounts are reported as separate line items on the statement of net assets.

8. Accrued Liabilities

Accrued liabilities consist of salaries and benefits payable and load banking hours as described below.

9. Deferred Revenue

Cash received for Federal and State special projects and programs and for student fees is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

10. Compensated Absences

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as liabilities of the District as compensated absences in the Statement of Net Assets.

The District has accrued a liability for the amounts attributable to load banking hours within accounts payable. Load banking hours consist of hours worked by instructors in excess of a full-time load for which they may carryover for future paid time off.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

11. Net Assets

Invested in capital assets, net of related debt: This represents the District's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted net assets – expendable: Restricted expendable net assets include resources in which the District is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties or by enabling legislation adopted by the District. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Restricted net assets – non-expendable: Non-expendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The District had no restricted net assets – non-expendable.

Unrestricted net assets: Unrestricted net assets represent resources available to be used for transactions relating to the general operations of the District, and may be used at the discretion of the governing board, as designated, to meet current expenses for specific future purposes.

12. State Apportionments

Certain current year apportionments from the State are based upon various financial and statistical information of the previous year.

Any prior year corrections due to the recalculation in February of 2010 will be recorded in the year computed by the State.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

13. Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31.

Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis. A receivable has not been recognized in the General Fund for property taxes due to the fact that any receivable is offset by a payable to the State for apportionment purposes. Property taxes for debt service purposes have not been accrued in the basic financial statements as the amount is not material.

14. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers' Retirement System on behalf of all Community Colleges in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at $858,000 for STRS.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

15. Classification of Revenues

The District has classified its revenues as either operating or non-operating revenues according to the following criteria:

Operating revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as student fees, net of scholarship discounts and allowances, and Federal and most State and local grants and contracts.

Non-operating revenues: Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as State apportionments, taxes, and other revenue sources that are defined as non-operating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Non-expendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting*, and GASB No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

16. Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other Federal, State or non-governmental programs, are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the District has recorded a scholarship discount and allowance.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING (continued)

17. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Some of the more common estimates would relate to year end accruals for receivables and payables, and useful lives of capital assets. Actual results may differ from those estimates.

18. New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pension Plans*, outlining new accounting standards for governmental agencies regarding other post-employment benefits. The statement is effective for the District in fiscal year 2008-09. The statement requires governmental agencies to record and disclose the actuarially determined cost of post-employment benefits other than pensions based on the benefits expected to be earned by employees in the future, as well as those benefits the employees have already earned. The annual required contribution (ARC), as defined in the statement, includes the employer's normal cost and a provision(s) for amortizing the total unfunded actuarial accrued liability for a period not to exceed 30 years.

Detailed disclosure required by the statement is provided at Note 12.

NOTE 2 - DEPOSITS AND INVESTMENTS:

A. Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. All public funds are invested in bonds or government backed (collateralized) securities at 110% on the amount of deposit. The principal (face value) does not fluctuate, only the interest received on the investment. Based on recent legislation, the non-interest bearing portion of depository totals have 100% coverage regardless of the dollar amount. As of June 30, 2009, $343,093 of the District's bank balance of $593,093 was exposed to credit risk as follows:

Collateral held by pledging bank's trust department but not specifically in the District's name	$343,093

At June 30, 2009 and through December 31, 2013, the FDIC insurance level was $250,000. The District's custodial credit risk is evaluated on amounts in excess of the FDIC insurance level.

Cash in County

In accordance with the Budget and Accounting Manual, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool. These pooled funds are carried at cost which approximates fair value. The fair market value of the District's deposits in this pool as of June 30, 2009, as provided by the pool sponsor, was $152,605,038. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Investments

Under provisions of California Government Code Sections 16430, 53601 and 53602 and District Board Policy Section 6006, the District may invest in the following types of investments:

- State of California Local Agency Investment Fund (LAIF)
- San Diego County Investment Pools
- U.S. Treasury notes, bonds, bills or certificates of indebtedness
- U.S. Government Agency guaranteed instruments
- Fully insured or collateralized certificates of deposit
- Prime Commercial Paper having an "AA" rating or better

The District did not violate any provisions of the California Government Code or Board Policy during the year ended June 30, 2009.

Investments at June 30, 2009 are in internal investment pools and are presented below:

Investment	Maturities	Fair Value	Standard & Poor's Rating
Bayerische Landesbank	4/1/2031	$ 193,956	AAA
Federated Money Market Obligation U.S. Treasury		528,034	
First American Treasury Obligation		3	
Total		$ 721,993	

The Federated Money Market Obligation U.S. Treasury and First American Treasury Obligation are fully invested in a U.S. Government Security, therefore, no risk is disclosed. The Federated Money Market Obligation U.S. Treasury has been classified as an investment as the District intends to hold these funds for the long-term.

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

B. Investments (continued)

Interest Rate Risk

The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer. More than 5% of the District's investments are in the Bayerische Landesbank and Federated Money Market Obligation U.S. Treasury, which is not at risk as noted above.

NOTE 3 - ACCOUNTS RECEIVABLE:

The accounts receivable balance as of June 30, 2009 consists of the following:

Federal and State	$17,307,096
Miscellaneous	2,563,079
	$19,870,175

NOTE 4 - INTERFUND TRANSACTIONS:

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund receivables and payables result when the interfund transfer is transacted after the close of the fiscal year. Interfund activity between governmental funds has been eliminated in the basic financial statements.

NOTE 5 - CAPITAL ASSETS:

The following provides a summary of changes in capital assets for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Dispositions	Balance June 30, 2009
Capital Assets				
Land	$ 41,203,193	$ 3,562,385	$	$ 44,765,578
Land improvements	14,851,995			14,851,995
Site and site improvements	61,119,860		(1,357,815)	59,762,045
Equipment	15,548,183	1,288,907	(1,301,633)	15,535,457
Construction in progress	7,316,651	18,710,279	(3,562,385)	22,464,545
Total cost	140,039,882	23,561,571	(6,221,833)	157,379,620
Accumulated Depreciation				
Land improvements	(10,639,844)	(252,568)		(10,892,412)
Site and site improvements	(14,430,008)	(1,257,363)	1,108,261	(14,579,110)
Equipment	(11,140,653)	(1,577,280)	1,142,423	(11,575,510)
Total accumulated depreciation	(36,210,505)	(3,087,211)	2,250,684	(37,047,032)
Net capital assets	$ 103,829,377	$ 20,474,360	$ (3,971,149)	$ 120,332,588

NOTE 6 - OPERATING LEASES:

The District has entered into various operating leases for land, buildings, and equipment with lease terms in excess of one year. None of these agreements contain purchase options. Future minimum lease payments under these agreements are as follows:

Fiscal Year	Lease Payment
2009-10	$ 442,089
2010-11	342,336
2011-12	87,069
2012-13	51,737
2013-14	5,657
Total	$ 928,888

Current year expenditures for operating leases is approximately $526,700. The District will receive no sublease rental revenues nor pay any contingent rentals for these properties.

NOTE 7 - CERTIFICATES OF PARTICIPATION:

The agreement dated January 13, 1999, is between the Palomar Community College District as the "lessee" and the California Community College Corporation as the "lessor" or "corporation". The Corporation is a legally separate entity which was formed for the purpose of capital improvement and then leasing such items to the participating district and to refinance the 1994 Certificates of Participation.

The Corporation's funds for acquiring these items were generated by the issuance of $7,480,000 of Certificates of Participation (COPs). COPs are long-term debt instruments which are tax exempt and therefore issued at interest rates below current market levels for taxable investments.

Lease Payments - Lease payments are required to be made by the District under the lease agreement on each April 1 and October 1 for use and possession of the equipment for the period commencing April 1, 1999 and terminating October 1, 2019. Lease payments will be funded in part from the proceeds of the Certificates. Interest rates range from 3.5% to 5.0% for the length of the issuance.

NOTE 7 - CERTIFICATES OF PARTICIPATION: (continued)

The lease requires that lease payments be deposited in the lease payment fund maintained by the trustee. Any amount held in the lease payment fund will be credited towards the lease payment due and payable. The trustee will pay from the lease payment fund the required principal and interest payments as follows:

Lease Payment Date	Principal	Interest	Total Payments
October 1, 2009	$ 340,000	$ 105,856	$ 445,856
April 1, 2010		98,886	98,886
October 1, 2010	350,000	98,886	448,886
April 1, 2011		91,536	91,536
October 1, 2011	365,000	91,536	456,536
April 1, 2012		83,688	83,688
October 1, 2012	380,000	83,688	463,688
April 1, 2013		75,328	75,328
October 1, 2013	400,000	75,328	475,328
April 1, 2014		65,328	65,328
10/1/2014 - 4/1/2019	2,300,000	396,595	2,696,595
10/1/2019- 4/1/2020	525,000	12,141	537,141
Total	$ 4,660,000	$ 1,278,796	$ 5,938,796

NOTE 8 - REVENUE BONDS:

The District issued Revenue Bonds on July 18, 2001 in the amount of $3,095,000 to be used to remodel and expand the Student Center. Interest rates on the bonds range from 5.0% to 5.625% for the length of the issuance. The bonds will mature on April 1, 2031. The source of revenue to pay off the debt will come from the Student Center Fee Fund. Future principal and interest payments are as follows:

Lease Payment Date	Principal	Interest	Total Payments
October 1, 2009	$	$ 67,242	$ 67,242
April 1, 2010	70,000	67,242	137,242
October 1, 2010		65,842	65,842
April 1, 2011	75,000	65,842	140,842
October 1, 2011		64,295	64,295
April 1, 2012	75,000	64,295	139,295
October 1, 2012		62,682	62,682
April 1, 2013	80,000	62,682	142,682
October 1, 2013		60,903	60,903
April 1, 2014	80,000	60,903	140,903
10/1/2014 - 4/1/2019	475,000	546,300	1,021,300
10/1/2019 - 4/1/2024	610,000	412,938	1,022,938
10/1/2024 - 4/1/2029	795,000	225,675	1,020,675
10/1/2029 - 4/1/2031	380,000	29,469	409,469
Total	$ 2,640,000	$ 1,856,310	$ 4,496,310

NOTE 9 - GENERAL OBLIGATION BONDS:

On November 7, 2006, the District voters authorized the issuance and sale of general obligation bonds totaling $694,000,000. Proceeds from the sale of the bonds will be used to finance certain projects of the District and to pay all necessary legal, financial, engineering and contingent costs. On May 2, 2007, the District issued General Obligation Bonds, Election of 2006, Series A of $160,000,000 of current interest bonds. Interest ranges from 4.25% to 5.00% payable semiannually on May 1 and November 1.

The outstanding bonded debt for Palomar Community College District at June 30, 2009 is:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2008	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2009
2006A	5/2/2007	4.25 % - 5.0%	2032	$ 160,000,000	$ 158,000,000	$	$ 6,250,000	$ 151,750,000
				$ 160,000,000	$ 158,000,000	$ -	$ 6,250,000	151,750,000
						Bond Premium*		5,607,099
						Total Bonds Payable		$ 157,357,099

* Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series A bonds included a premium of $6,094,673. This amount is amortized using the straight-line method. Amortization was recognized during the 2008-09 year in the amount of $243,787. The unamortized balance at June 30, 2009 is $5,607,099.

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2009, are as follows:

Year Ended June 30,	Principal	Interest	Total
2010	$ 1,905,000	$ 7,201,338	$ 9,106,338
2011	2,315,000	7,120,375	9,435,375
2012	2,455,000	7,027,775	9,482,775
2013	2,745,000	6,929,575	9,674,575
2014	3,060,000	6,806,050	9,866,050
2015-2019	20,915,000	31,452,750	52,367,750
2020-2024	32,740,000	25,110,250	57,850,250
2025-2029	47,820,000	16,048,712	63,868,712
2030-2032	37,795,000	3,671,750	41,466,750
	$ 151,750,000	$ 111,368,575	$ 263,118,575

NOTE 10 - LONG-TERM DEBT:

A schedule of changes in long-term debt for the year ended June 30, 2009 is shown below:

	Beginning Balance	Additions	Deductions	Ending Balance	Amount Due in One Year
Capital leases	$ 72,496	$	$ 72,496	$ -	$
Certificates of participation (COP)	4,985,000		325,000	4,660,000	340,000
Revenue bonds	2,705,000		65,000	2,640,000	70,000
General obligation bonds	163,850,886		6,493,787	157,357,099	1,905,000
Other post-employment benefits (OPEB)		759,905		759,905	
	$ 171,613,382	$ 759,905	$ 6,956,283	$ 165,417,004	$ 2,315,000

For governmental activities, including capital leases and net OPEB obligations, liabilities are liquidated by the General Fund

NOTE 11 - EMPLOYEE RETIREMENT PLANS:

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 (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2008-09 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The average required employer contribution for fiscal year 2008-09 was 9.428% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to STRS and PERS

The District's contributions to STRS and PERS for each of the last three fiscal years is as follows:

	STRS		PERS	
Year Ended June 30,	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2007	$3,257,277	100%	$2,202,417	100%
2008	3,581,192	100%	2,511,471	100%
2009	3,509,668	100%	2,545,033	100%

NOTE 12 - POST-EMPLOYMENT HEALTH CARE BENEFITS:

Plan Description and Eligibility

The District administers a single-employer defined benefit health care plan (the Retiree Health Plan). The plan provides health and dental benefits to eligible retirees, spouses/registered domestic partners and eligible dependents in accordance with provisions established through negotiations between the District and the bargaining unions representing employees. Plan provisions are renegotiated each three-year bargaining period. The retiree health plan does not issue a separate financial report.

Eligibility

The District currently provides retiree and dependent health benefits to eligible academic, classified, classified leadership and administrators. Eligibility requirements vary by employee classification. The length of coverage depends on total years of service to the College. Membership of the plan consisted of the following at November 1, 2007, the date of the latest actuarial valuation.

Retirees and beneficiaries receiving benefits	351
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	754
	1,105

Funding Policy

The District currently finances benefits on a pay-as-you-go basis. The District contributes 100 percent of the cost of current year premiums for eligible retirees, spouses/registered domestic partners and eligible dependents as applicable. For fiscal year ended 2009, the District contributed $3,790,795 to the plan. Although the plan has no segregated assets, the District does maintain a post retirement benefits fund to designate resources for retiree health costs. At June 30, 2009, the fund's fund balance was $14,770,159.

NOTE 12 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual other post-employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed, and changes in the OPEB obligation:

Annual required contribution (ARC)	$4,550,700
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	4,550,700
Contributions made	3,790,795
Change in net OPEB obligation	759,905
Net OPEB obligation - beginning of year [1]	-
Net OPEB obligation - end of year	$ 759,905

[1] GASB Statement No. 45 provides for prospective implementation, therefore the beginning OPEB obligation is set at zero as the beginning of the initial year.

The District's annual OPEB cost for the year, the percentage of annual OPEB cost contributed, and the net OPEB obligation for fiscal year ended 2009 was as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2009	$4,550,700	83.3%	$ 759,905

Fiscal year 2009 was the year of implementation of GASB Statement No. 45 and the District elected to implement prospectively, therefore, prior year comparative data is not available. In future years, three-year trend information will be presented.

NOTE 12 - POST-EMPLOYMENT HEALTH CARE BENEFITS: (continued)

Funding Status and Funding Progress

As of November 1, 2007, the most recent actuarial valuation date, the plan was completely unfunded. The actuarial accrued liability for benefits was $68,399,865, and the unfunded actuarial accrued liability (UAAL) was also $68,399,865. The covered payroll (annual payroll of active employees covered by the plan) was $54,521,872, and the ratio of the UAAL to the covered payroll was 125.5%.

Actuarial valuations of an ongoing benefit plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets, if any, is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, if any, consistent with the long-term perspective of the calculations.

In the November 1, 2007 actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 5.0% investment rate of return (net of administrative expenses) which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 4% and a 3% inflation assumption. The actuarial value of assets was determined using the amount of contributions made; because there has not been a previous valuation, it was not necessary at this time to make an election with respect to whether to use an asset smoothing formula and, if so, what smoothing method to use. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009, was twenty-nine years.

NOTE 13 - JOINT POWERS AGREEMENT:

The Palomar Community College District participates in four joint powers agreement (JPA) entities; the San Diego County Schools Fringe Benefits Consortium (SDCSFBC); the Statewide Association of Community Colleges (SWACC); the Schools Association for Excess Risk (SAFER) and the Community College League's Retiree Health Benefit JPA. The relationship between the District and the JPAs is such that none of the JPAs are a component unit of the District for financial reporting purposes, as explained below.

Previously the District participated in the San Diego County Schools Risk Management JPA (SDCRM-JPA). Currently they continue to make payments for on-going claims processed by the JPA.

The San Diego County Schools Fringe Benefits Consortium provides employee fringe benefits to various school districts and community college districts throughout San Diego County. The San Diego County Schools Fringe Benefits Consortium's governing board is made up of one representative from each member district.

The Statewide Association of Community Colleges provides property and liability coverage to various community college districts throughout California. SWACC is governed by a board consisting of one representative from each member district.

The Schools Association for Excess Risk arranges for and provides a self-funded or additional insurance for excess liability coverage to various school districts and community college districts throughout California.

The District joined the Community College League of California's (CCLC) Retiree Health Benefit JPA Program in September 2006. The CCLC Retiree Health Benefit JPA was created to assist districts in responding to the GASB No. 45 accounting standards, which require districts to place funds in an irrevocable trust or acknowledge, in their annual financial statements, their unfunded liability.

Separate financial statements for each JPA may be obtained from the respective entity.

NOTE 13 - JOINT POWERS AGREEMENT: (continued)

Condensed financial information of SDCSFBC, SWACC, and SAFER for the most current information available is as follows:

	SDCSFBC 6/30/2009 (Unaudited)	SWACC 6/30/2008 (Audited)	SAFER 6/30/2008 (Audited)
Total assets	$18,643,813	$39,034,338	$ 8,918
Total liabilities	14,378,411	19,175,367	4,661
Retained earnings	$ 4,265,402	$19,858,971	$ 4,257
Total revenues	$87,072,601	$10,740,119	$26,409,423
Total expenditures	91,796,240	8,769,388	26,408,589
Net change in retained earnings	$ (4,723,639)	$ 1,970,731	$ 834

NOTE 14 - FUNCTIONAL EXPENSE:

	Salaries	Employee Benefits	Supplies, Materials, Utilities Other Expenses and Services	Financial Aid and Other Outgo	Depreciation	Total
Instructional	$ 40,891,043	$ 10,131,924	$ 1,412,838	$	$	$ 52,435,805
Academic Support	13,453,263	4,403,025	3,336,858			21,193,146
Student Services	11,444,506	3,397,520	893,070	56,200		15,791,296
Operation & Maintenance of Plant	3,252,873	1,337,562	1,653,362			6,243,797
Institutional Support	8,434,817	4,476,176	1,659,660			14,570,653
Community Services and Economic Development	120,400	44,901	1,983			167,284
Ancillary Services and Auxiliary Operations	2,985,466	816,452	1,015,374			4,817,292
Physical Property and Related Acquisitions			11,372,750			11,372,750
Transfers, Student Aid and Other Outgo			241	7,495,791		7,496,032
Depreciation Expense					3,087,211	3,087,211
Total	$ 80,582,368	$ 24,607,560	$ 21,346,136	$ 7,551,991	$ 3,087,211	$ 137,175,266

NOTE 15 - COMMITMENTS AND CONTINGENCIES:

A. State and Federal Allowances, Awards and Grants

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

B. Ground Lease and Lease-Back Purchase Agreement

The District entered into a ground lease and lease back purchase of 1.8 acres for a parking lot at the Escondido Center in December of 1991 with the Community Development Commission of the City of Escondido (CDC). The debt service of the structure totaled $4,480,000 that is to be paid from a tax sharing agreement with the CDC. The tax sharing agreement provides direct funding to the CDC from the County from property tax for servicing the debt that was issued in their name. The outstanding debt as of June 30, 2009, including principal and interest, is $2,181,119.

C. Purchase Commitments

As of June 30, 2009, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately $44,200,000. Projects will be funded through Capital Outlay and Proposition M Bond Funds.

D. Litigation

The District is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate deposition of these matters will not have a material adverse effect on the District's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF POSTEMPLOYMENT HEALTHCARE BENEFITS FUNDING PROGRESS

For the Fiscal Year Ended June 30, 2009

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (Entry Age Normal Cost Method) (AAL)	Unfunded Actuarial Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
11/1/2007	$ -	$68,399,865	$68,399,865	0%	$54,521,872	125.5%

Note: Fiscal year 2009 was the implementation year of GASB Statement No. 45 and the District elected to implement prospectively, therefore, prior year actuarial comparative data is not available. In future years, as actuarial valuations are performed, three year trend information will be presented.

The District has set aside $14,770,159 for future retiree health care costs in the Post Retirement Benefits Fund.

See the accompanying notes to the required supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2009

NOTE 1 - PURPOSE OF SCHEDULE:

A. Schedule of Postemployment Healthcare Benefits Funding Progress

This schedule is prepared to show information for the most recent actuarial valuation and in future years, the information from the three most recent actuarial valuations in accordance with Statement No. 45 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

SUPPLEMENTARY INFORMATION

PALOMAR COMMUNITY COLLEGE DISTRICT

HISTORY AND ORGANIZATION
June 30, 2009

The Palomar Community College District was established in January 1945, to provide higher education to the communities of North San Diego County. The first classes were held in September 1946. The College is located in San Marcos and draws students from the communities of Escondido, San Marcos, Poway, Vista, Ramona and surrounding areas. Classes are currently held on the main campus in San Marcos as well as satellite campus centers in Escondido, Ramona, Mt. Carmel, Pauma Valley, Borrego Springs, Fallbrook and Camp Pendleton.

GOVERNING BOARD

Member	Office	Term Expires
Nancy C. Chadwick, M.S.W., M.P.A.	President	2012
Michele T. Nelson, Ph.D.	Vice President	2010
Mark R. Evilsizer, M.A.	Secretary	2010
Darrell L. McMullen, M.B.A.	Trustee	2012
Rose Marie Dishman, Ph.D.	Trustee	2012
Andrew Bissell	Student Trustee	2010

DISTRICT EXECUTIVE OFFICERS

Robert P. Deegan	Superintendent/President
Berta Cuaron	Assistant Superintendent/Vice President, Instruction
Joseph Madrigal	Assistant Superintendent/Vice President, Student Services
Bonnie Ann Dowd, Ed.D	Assistant Superintendent/Vice President, Finance and Administrative Services
John Tortarolo	Assistant Superintendent/Vice President, Human Resources and Affirmative Action
Norma Miyamoto	Dean, Arts, Media, Business and Computer Systems
Wilma Owens	Dean, Career, Technical and Extended Education
Steve McDonald	Dean, Languages and Literature
Candice Francis, Ed.D	Dean, Math and the Natural and Health Sciences
Mark Vernoy, Ph.D.	Dean, Social and Behavioral Sciences
Lynda Halttunen	Dean, Counseling Services

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal year Ended June 30, 2009

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number *	Total Program Expenditures and Encumbrances
U.S. Department of Education			
Student Financial Aid Cluster:			
SEOG	84.007	N/A	$ 244,500
Administrative Allowance	84.063	N/A	8,181
Pell Grant	84.063	N/A	5,027,018
Federal Work Study	84.033	N/A	165,086
Direct Loans	84.268	N/A	1,325,843
Academic Competitiveness Grant	84.375	N/A	1,400
Total Student Financial Aid Cluster			6,772,028
TRIO Cluster:			
Educational Opportunity Centers	84.066A	N/A	219,813
Student Support Services	84.042A	N/A	272,523
Upward Bound	84.047A	N/A	226,376
Total TRIO Cluster			718,712
Higher Education Act:			
Veterans Education	84.120	N/A	6,880
Gear-Up	84.334A	N/A	1,716,394
Strengthening Institutions-Hispanic Serving Institutions	84.031S	N/A	133,207
Total direct from U.S. Department of Education			1,856,481
Pass Through the California Community College Chancellor's Office (CCCCO):			
Career and Technical Education (CTE)			
Perkins-Title I, Part C	84.048	13920	600,837
Perkins-Title IV	84.048	N/A	76,148
Perkins-Title II Tech Prep	84.243	13929	78,974
Total passed through from the CCCCO			755,959
Total U.S. Department of Education			10,103,180
U.S. Department of Health and Human Services			
Pass Through the California Department of Education (CDE):			
Temporary Assistance for Needy Families	93.558	N/A	48,398
Child Development Training Consortium	93.575	13967	29,962
Total U.S. Department of Health and Human Services			78,360
U.S. Department of Agriculture			
Pass Through the California Department of Education (CDE):			
Child Nutrition	10.555	03755	50,660
Total U.S. Department of Agriculture			50,660
Total Federal Programs			$ 10,232,200
Reconciliation to Federal Revenues:			
Total Federal Expenditures			$ 10,232,200
Revenues in excess of expenditures.			
Administrative Allowance			27,532
Total Federal Grants			$ 10,259,732

* Pass-Through number is either not available or not applicable.

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF STATE FINANCIAL ASSISTANCE
For the Fiscal Year Ended June 30, 2009

Program Name	Program Revenues: Cash Received	Accounts Receivable	Deferred Income	Accounts Payable	Total	Total Program Expenditures and Encumbrances
State Categorical Aid Programs:						
Associate Nursing Degree Grant	$ 326,324	$ 31,734	$	$	$ 358,058	$ 358,058
Apprentice Allowance	1,273,349				1,273,349	1,273,349
Capacity Building Nursing Grant	15,104				15,104	15,104
Board Financial Assistant Program	551,820		55,661		496,159	496,159
Block Grant - Instructional Materials	611,999		418,530		193,469	193,469
CalWORKS	279,324			34,246	245,078	245,078
Disabled Student Programs & Services	1,182,400		41,881		1,140,519	1,140,519
Extended Opportunity Programs & Services	1,306,209		100,268		1,205,941	1,205,941
Faculty Work Experience	686				686	686
Matriculation	1,693,879		342,023		1,351,856	1,351,856
Part-Time Faculty	859,775				859,775	859,775
Faculty and Staff Diversity	20,536				20,536	20,536
Telecommunications and Technology	36,036				36,036	36,036
California Articulation Number System	4,000		2,312		1,688	1,688
Telecommunications and Technology Infrastructure Program & E-Conferencing	2,728,746	196,490			2,925,236	2,925,236
3C Media Solutions	2,041,036	370,249			2,411,285	2,411,285
Basic Skills	377,978		377,978		-	-
Total State Program Expenditures	$ 13,309,201	$ 598,473	$ 1,338,653	$ 34,246	$ 12,534,775	$ 12,534,775

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF WORKLOAD MEASURE FOR STATE GENERAL APPORTIONMENT
ANNUAL (ACTUAL) ATTENDANCE
For the Fiscal Year Ended June 30, 2009

	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2008 only)			
1. Noncredit[1]	253.45		253.45
2. Credit	1,708.15		1,708.15
B. Summer Intersession (Summer 2009 - Prior to July 1, 2009)			
1. Noncredit[1]	-		-
2. Credit	163.47		163.47
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	12,744.04		12,744.04
(b) Daily Census Contact Hours	856.20		856.20
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit[1]	1,100.05		1,100.05
(b) Credit	482.62		482.62
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	2,385.10		2,385.10
(b) Daily Census Contact Hours	768.02		768.02
(c) Noncredit Independent Study/Distance Education Courses	N/A		N/A
D. Total FTES	20,461.10		20,461.10
Supplemental Information (subset of above information)			
E. In-Service Training Courses (FTES)	33.66		
H. Basic Skills courses and Immigrant Education			
(a) Noncredit[1]	811.46		
(b) Credit	814.63		
CCFS 320 Addendum			
CDCP Noncredit FTES	706.54		
Centers FTES			
(a) Noncredit	283.09		
(b) Credit	1,756.83		

[1] Including Career Development and College Preparation (CDCP) FTES
N/A - Workload Measure is not applicable

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FUND BALANCES
For the Fiscal Year Ended June 30, 2009

	Proposition M Bond Construction Fund
June 30, 2009 Annual Financial and Budget Report Fund Balance (CCFS-311)	$107,007,491
Adjustments and Reclassifications:	
Understatement of cumulative unrealized gain - Cash with County	600,407
Net Adjustments and Reclassifications	600,407
June 30, 2009 Audited Fund Balance	$107,607,898

Notes:

1. Additional entries were made to comply with the GASB 34/35 reporting requirements. These entries are not considered audit adjustments for purposes of this reconciliation.

2. The adjustment for fair market value is a measurement at a point in time that is not realized through an actual transaction.

3. The Associated Students Trust Fund reflected an ending fund balance of $182,625 on the CCFS-311; of this amount, $112,770 is shown as funds held in trust leaving an ending fund balance of $69,855.

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF GENERAL FUND FINANCIAL TRENDS AND ANALYSIS

For the Fiscal Year Ended June 30,

	(Budget) 2010 Amount	(Budget) 2010 %	2009 Amount	2009 %	2008 Amount	2008 %	2007 Amount	2007 %
GENERAL FUND:								
Revenue								
Federal	$ 5,676,112	4.44	$ 3,607,979	2.95	$ 3,846,017	3.07	$ 3,554,041	3.04
State	47,643,399	37.25	54,882,436	44.81	47,369,928	37.85	51,016,426	43.62
County and local	68,937,475	53.90	70,807,104	57.80	70,570,412	56.39	67,770,239	57.94
Total revenue	122,256,986	95.59	129,297,519	105.56	121,786,357	97.31	122,340,706	104.60
Expenditures								
Academic salaries	49,147,729	38.43	49,299,931	40.25	50,225,161	40.13	45,135,069	38.59
Classified salaries	31,318,097	24.49	30,260,422	24.71	30,988,244	24.76	27,955,572	23.90
Employee benefits	24,713,980	19.32	23,057,060	18.82	23,498,889	18.78	21,747,502	18.59
Supplies and materials	2,373,121	1.86	1,657,056	1.35	2,236,850	1.79	2,313,006	1.98
Other operating expenses & services	14,518,009	11.35	15,543,011	12.69	14,623,603	11.68	12,797,905	10.94
Capital outlay	1,935,936	1.51	1,644,328	1.34	2,415,789	1.93	3,722,616	3.18
Other uses (net)	3,892,937	3.04	1,026,149	0.84	1,162,046	0.93	3,293,671	2.82
Total expenditures	127,899,809	100.00	122,487,957	100.00	125,150,582	100.00	116,965,341	100.00
Change in fund balance	$ (5,642,823)	(4.41)	$ 6,809,562	5.56	$ (3,364,225)	(2.69)	$ 5,375,365	4.60
Ending fund balance	$ 15,663,032	12.25	$ 21,305,855	17.39	$ 14,496,293	11.58	$ 17,860,518	15.27
Full-time equivalent students	20,500		20,461		20,004		19,406	
Total long-term debt	$ 162,858,217		$ 165,417,004		$ 171,613,382		$ 174,301,889	

IMPORTANT NOTES:

All percentages are of total expenditures excluding contingencies

The California Community College Chancellor's Office has provided guidelines that recommend an ending fund balance of 3% of expenditures as a minimum, with a prudent ending fund balance being 5% of expenditures

Total long-term debt for 2007 and 2008 excludes the actuarially determined liability for retiree benefits as explained in Note 12.

See the accompanying notes to the supplementary information.

PALOMAR COMMUNITY COLLEGE DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2009

NOTE 1 - PURPOSE OF SCHEDULES:

A. Schedules of Expenditures of Federal Awards and State Financial Assistance

The audit of the Palomar Community College District for the year ended June 30, 2009 was conducted in accordance with OMB Circular A-133, which requires a disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Federal Awards and the Schedule of State Financial Assistance was prepared for the Palomar Community College District on the modified accrual basis of accounting.

B. Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment represents the basis of apportionment of the Palomar Community College District's annual source of funding.

C. Reconciliation of Annual Financial and Budget Report with Audited Fund Balances

This schedule reports any audit adjustments made to the fund balances of all funds as reported on the Form CCFS-311.

D. Schedule of General Fund Financial Trends and Analysis

This report is prepared to show financial trends of the General Fund over the past three fiscal years as well as the current year budget. This report is intended to identify if the District faces potential fiscal problems and if they have met the recommended available reserve percentages.

OTHER INDEPENDENT AUDITORS' REPORTS

VICENTI • LLOYD • STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees
Palomar Community College District
1140 W. Mission Road
San Marcos, CA 92069-1487

We have audited the basic financial statements of the Palomar Community College District (the District) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 14, 2009. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Palomar Community College District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Palomar Community College District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

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

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 14, 2009

VICENTI ♦ LLOYD ♦ STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

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

The Board of Trustees
Palomar Community College District
1140 W. Mission Road
San Marcos, CA 92069-1487

Compliance

We have audited the compliance of Palomar Community College District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

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

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was to the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 14, 2009

VICENTI ♦ LLOYD ♦ STUTZMAN LLP
BUSINESS CONSULTANTS AND CPAs

REPORT ON STATE COMPLIANCE

The Board of Trustees
Palomar Community College District
1140 W. Mission Road
San Marcos, CA 92069-1487

We have audited the basic financial statements of Palomar Community College District, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 14, 2009.

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. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

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 the Chancellor's Office's California Community Colleges Contracted District Audit Manual (CDAM). 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:

- Whether the District's salaries of classroom instructors equal or exceed 50 percent of the District's current expense of education in accordance with Section 84362 of the Education Code.

- Whether the District has the appropriate documentation to support the FTES, if any, that are claimed for instructional service agreements/contracts.

- Whether the District has the ability to support timely accurate and complete information for workload measures used in the calculation of State General Apportionment.

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- Whether the District has acted to ensure that the residency of each student is properly classified and that only the attendance of California residents is claimed for apportionment purposes.
- Whether the District claimed for apportionment purposes only the attendance of students actively enrolled in a course section as of the census date.
- Whether District has complied with all requirements necessary to claim FTES for the attendance of concurrently enrolled K-12 pupils.
- Whether the District had local funds to support at least 75 percent of the credit matriculation activities and that all matriculation expenditures are consistent with the District's State approved matriculation plan.
- Whether the Gann Limit Calculation was properly calculated and supported by adequate documentation.
- Whether the District is reporting the total amount that students should have paid for enrollment fees for the purpose of determining the District's share of annual apportionment.
- Whether the District expended CalWORKS program State and TANF funds to provide specialized student support services, curriculum development, or instruction to eligible CalWORKS students.
- Whether the District spent an amount equal to or greater than the amount provided by the State for scheduled maintenance and special repairs. Funds provided by the State must be to supplement, not supplant, District scheduled maintenance funds. The amount expended for plant maintenance and operations during the base year of 1995-96 was $3,447,456.
- Whether all District courses that qualify for State apportionment are open to enrollment by the general public unless specifically exempted by statute.
- Whether the District has adopted policies or regulations regarding the authority of the District to require students to provide various types of instructional materials and whether the District has advised students of the exemptions from payment of health fees and established a process to ensure that students may claim the exemptions.

In our opinion, Palomar Community College District complied with the compliance requirements for the state programs listed and tested above. Nothing came to our attention as a result of the aforementioned procedures to indicate that Palomar Community College District had not complied with the terms and conditions of state assisted educational programs not selected for testing.

REPORT ON STATE COMPLIANCE

Our examination of compliance made for the purposes set forth in the preceding paragraph of this report would not necessarily disclose all instances of noncompliance.

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

Vicenti, Lloyd & Stutzman LLP

VICENTI, LLOYD & STUTZMAN LLP

December 14, 2009

FINDINGS AND RECOMMENDATIONS

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2009

Financial Statements

Type of auditor's report issued:	*Unqualified*
Internal control over financial reporting:	
Material weakness(es) identified?	____ Yes __X__ No
Significant deficiencies identified not considered to be material weaknesses?	____ Yes __X__ None reported
Non-compliance material to financial statements noted?	____ Yes __X__ No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	____ Yes __X__ No
Significant deficiencies identified not considered to be material weaknesses?	____ 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 Circular A-133, Section .510(a)	____ Yes __X__ No

Identification of Major Programs Tested

CFDA Number(s)	Name of Federal Program or Cluster
84.007, 84.033, 84.063. 84.268 and 84.375	Student Financial Assistance Cluster of Programs
84.048 and 84.243	Career and Technical Education

Dollar threshold used to distinguish between Type A and Type B programs:	$ 306,966
Auditee qualified as low-risk auditee?	__X__ Yes ____ No

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FINANCIAL STATEMENTS June 30, 2009

There were no findings and questioned costs related to basic financial statements for the year ended June 30, 2009.

PALOMAR COMMUNITY COLLEGE DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS
June 30, 2009

There were no findings and questioned costs related to federal awards for the fiscal year ended June 30, 2009.

PALOMAR COMMUNITY COLLEGE DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2009

Prior Year Finding No.	Finding	Recommendation	Current Status
08-1	**STUDENT ACCOUNTS RECEIVABLE** **Original Finding 06-2** The District should have a listing of accounts receivable or a reconciliation that agrees to the general ledger account balance. It was noted that the schedule of student accounts receivable provided by the District was significantly different than that of the general ledger. The listing indicated that there was approximately $3,248,000 in student accounts receivable, whereas the general ledger balance was approximately $340,000.	The District should maintain a listing of accounts receivable that agrees to or is reconciled to the general ledger balance.	Substantially implemented.

Prior Year Finding No.	Finding	Recommendation	Current Status
08-2	**CASH DISBURSEMENTS**		
	Original Finding 07-3		
	During our testing of the cash disbursements process we noted the following deficiencies:	We recommend the following:	
	• Proper supporting documentation was missing for two out of 40 disbursements tested.	• Ensure that the departments submit adequate and thorough documentation with voucher request. In addition, the accounts payable clerks should review all requests and ensure that supporting documents have adequate and proper approval.	• Implemented.
	• The CalCard policy sets spending limits to $1,000. It was noted that individual transactions exceeded the spending limits outlined in the policy. Several card holders had transactions above the threshold; in total 12 of 97 transactions were observed to have exceeded the limits.	• The CalCard policy for spending limits should be reviewed and controls should be implemented to adhere to the policy established.	• Significant improvement noted.
	• The District does not have an approved vendor list from which to conduct business. By not having such a list, the District's risk of fraud is increased due to the potential of paying a vendor that does not exist for services not performed. It also increases the risk of a conflict of interest by using a vendor related to District personnel.	• Develop an accurate listing of vendors and limit purchases to vendors on this list, unless extenuating circumstances exist. In addition, all approved vendors should be reviewed against the Federal government's listing of suspended and debarred vendors.	• Implemented.
	• The District should make a periodic review of the District's policies and procedures and adhere to them. There is currently no employee assigned to periodically review the purchasing procedures. Employees could be circumventing the policies and procedures that the District has set up since no one is currently reviewing the actual procedures performed.	• Assign an employee independent of the department or utilize the internal audit position to review that the policies and procedures are being followed.	• Implemented.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS RELATED TO FINANCIAL STATEMENTS
June 30, 2009

Prior Year Finding No.	Finding	Recommendation	Current Status
08-3	**INFORMATION TECHNOLOGY INTERNAL CONTROLS**		
	During our review of the internal controls over information technology we noted the following deficiencies:	We recommend the following:	
	• The computer system does not require passwords to be changed, especially for those who approve cash disbursement warrants.	• Consult with the Information Technology Department about implementing a process to require all employees to change their passwords a minimum of twice a year.	• Implemented.
	• User access to key accounts payable and purchasing functions within PeopleSoft is restricted to authorized personnel. Our test observed twenty-five (25) users assigned to a collection of eight (8) roles with access to Payables and Purchasing key functions. Based on the review of these twenty-five users, a total of five (5) users held inappropriate access. Of these five users in question, two appear to be short-term removed employees; two users removed from Purchasing or Payables departments; and one user with inappropriate access. Inappropriate access rights to business critical, sensitive data may jeopardize the safeguard, confidentiality, and integrity of data. Unauthorized payments, unauthorized POs, and manipulation of invoices may lead to an increase likelihood of fraudulent activity and lead to inaccurate and/or incomplete financial statement reporting.	• The District should implement formal periodic monitoring of users with access to business-critical procurement functions in PeopleSoft. We further recommend management improve current notification procedures to user-access administrators when an employee is removed from the college or department.	• Implemented.

Prior Year Finding No.	Finding	Recommendation	Current Status
08-4	**DISASTER RECOVERY PLAN** A written disaster recovery plan helps to ensure that an organization can efficiently recover after a significant interruption of information systems services. Although the District has backup procedures, there is no formalized comprehensive disaster recovery plan.	A written plan should include items such as: • Recovery roles and responsibilities • Emergency contacts • Prioritization of systems • Recovery procedures • Vendor contacts The plan should be prepared and regularly updated. It should be tested at least annually and the results of these tests should be reviewed and presented to the Board.	Substantially implemented.

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APPENDIX E

FINANCIAL AND DEMOGRAPHIC INFORMATION FOR SOUTHWESTERN COMMUNITY COLLEGE DISTRICT

SOUTHWESTERN COMMUNITY COLLEGE DISTRICT

Governing Board

Yolanda Salcido, *President*
Terri Valladolid, *Vice President*
Nick Aguilar, *Member*
Jorge Dominguez, *Member*
Jean Roesch, Ed.D., , *Member*

District Administration

Dr. Raj K. Chopra, *Superintendent/President*
Nicholas Alioto, *Vice President for Business & Financial Affairs*
Wayne C. Yanda, *Senior Director of Business Operations & Facilities Planning*

Introduction

The Southwestern Community College District (the "District") was established in 1960 and provides higher education in southern San Diego County. The District operates one campus: Southwestern College in Chula Vista. The District's area equals approximately 162 square miles. Total assessed valuation of taxable property in the District in Fiscal Year 2009-10 was $42,407,554,679.

Unless otherwise indicated, the following financial, statistical and demographic data has been provided by the District. Additional information concerning the District and copies of subsequent audited financial reports of the District may be obtained by contacting: Southwestern Community College District, Attention: Vice President of Business and Financial Affairs, 900 Otay Lakes Road, Chula Vista, California 91910.

Capitalized terms used but not otherwise defined in this Appendix shall have the meanings assigned to such terms in the front part of this Official Statement.

Administration

The District is governed by a five-member Board of Trustees, each member of which is elected to a four-year term. Elections for positions to the Board are held every two years, alternating between two and three available positions. Current members of the Board, together with their office and the date their term expires, are listed below:

Board Member	Office	Term Expires
Yolanda Salcido	President	December 2010
Terri Valladolid	Vice President	December 2010
Nick Aguilar	Member	December 2012
Jorge Dominguez	Member	December 2010
Jean Roesch	Member	December 2012

The Superintendent/President of the District is appointed by the Board and reports to the Board. The Superintendent/President is responsible for management of the District's day-to-day operations and supervises the work of other key administrators. Brief biographies of the Superintendent/President, Vice President for Business and Financial Affairs and the Senior Director of Business Operations & Facilities Planning follow:

Dr. Raj K. Chopra, Superintendent/President. Dr. Chopra was appointed as Superintendent/President for the District in August 2007. Prior to his appointment, Dr. Chopra served as the Superintendent of Phoenix Union High School District in Phoenix, Arizona. Prior thereto Dr. Chopra served as Superintendent of Marple Newton School District in Newton Square Pennsylvania, Granville Public School District in Granville Ohio, Fort Bend Independent School District in Sugar Land Texas, Shawnee Mission School District in Shawnee mission, Kansas, Council Bluffs School District in Council Bluffs, Iowa and Bellefontaine School District in Bellefontaine, Ohio. In his 46 year career in education he has also held positions as Assistant Superintendent, Principal, Principal/Director of Federal Programs and teacher. Dr. Chopra has earned a B.A. from Punjab University, a B.E.d. from Madras University and a M.E.d, in education and a Ph.D. in Education Administration from Bowling Green University.

Nicholas Alioto, Vice President for Business & Financial Affairs Mr. Alioto was appointed as Vice President for Business Services & Financial Affairs for the District in July 2009. Prior to his appointment, Mr. Alioto served as Administrator and Business Manger and Co-administrator for Business Services for Tigerton School District in Tigerton, Wisconsin. In his 17 year career as a school district administrator in Wisconsin, Mr. Alioto has served as Assistant Superintendent of Business Services for Kenosha Unified School District No. 1, Executive Director for Business Services for Eau Claire Area School District, Director of Business Services for Fox Point – Bayside School District and Director of Business Affairs for School District of Florence County. Mr. Alioto has earned a B.A. in Business Administration from the University of Wisconsin – Milwaukee, a M.B.A. from the University of Wisconsin – Whitewater and a Education Administration Certificate from the University of Wisconsin – Superior.

District Growth

The following table provides an 11-year history of growth in full time equivalent students for the District.

FULL TIME EQUIVALENT STUDENTS
Fiscal Years 2000-01 through 2010-11
Southwestern Community College District

School Year	FTES	Annual Change	% Change
2000-01	13,666	--	--
2001-02	14,188	522	3.82%
2002-03	14,803	615	4.33
2003-04	14,754	(49)	(0.33)
2004-05	14,298	(456)	(3.09)
2005-06	15,040	742	5.19
2006-07	15,356	316	2.10
2007-08	15,828	472	3.07
2008-09	16,102	274	1.73
2009-10	16,107	5	.03
2010-11	16,107	--	--

Source: Southwestern Community College District.

Labor Relations

The District employs 249 full-time certificated professionals, 362 full-time classified employees and 58 managers. In addition, the District employs 1,250 part-time faculty and staff. District employees, except management and some part-time employees, are represented by the bargaining units noted below.

SOUTHWESTERN COMMUNITY COLLEGE DISTRICT
Labor Relations Organizations

Labor Organization	Number of Employees in Organization	Contract Expiration Date
California Teacher's Association/ Southwestern College Education Association	249	June 30, 2009[(1)]
California School Employee's Association	350	June 30, 2008[(1)]

[(1)] Members of these bargaining units are working under the terms of their expired labor contracts while new labor contracts are negotiated.
Source: Southwestern Community College District.

Retirement Plans

The District participates in the State of California Teachers' Retirement System ("STRS"). The plan includes basically all certificated employees. The District's contribution to STRS was $3,072,636 in fiscal year 2008-09, $3,074,710 in fiscal year 2009-10, and is budgeted to be $3,046,179 in fiscal year 2010-11. The District also participates in the State of California Public Employees' Retirement System ("PERS"). This plan covers basically all regular classified personnel who are employed four or more hours per day. The District's contribution to PERS was $2,050,090 in fiscal year 2008-09, $1,996,399 in fiscal year 2009-10, and is budgeted to be $2,075,841 in fiscal year 2010-11.

The District is currently required by statute to contribute 8.25% of eligible salary expenditures to STRS, while participants contribute 8% of their respective salaries. STRS has a substantial statewide unfunded liability. Since this liability has not been broken down by each school or community college district, it is impossible to determine the District's share. The District was required to contribute to PERS at an actuarially determined rate, which is 10.707% of eligible salary expenditures for fiscal year 2010-11, while participants contribute 7% of their respective salaries.

Other Post-Employment Benefits

The District provides lifetime post employment health care benefits (the "Benefits") for eligible retirees. Retired employees must have worked for the District for at least 10 years (if such employee is administrative) or 15 years (if such employee is classified or academic). Employees must also have reached the age of 50 (if classified) or 55 (if administrative or academic).

The District has commissioned and received an actuarial study by Total Compensation Systems Inc., dated as of August 1, 2009, with respect to its accrued liability in connection with the Benefits. The study concluded that the unfunded actuarial accrued liability ("AAL") with respect to the Benefits, as of July 31, 2009, was $8,282,397 and that the annual required contribution ("ARC") is $766,468. The ARC is the annual amount that would be necessary to fund the Benefits in accordance with the Governmental Accounting Standards Board Statements Nos. 43 and 45.

Insurance

The District participates in a joint powers agreement for the Statewide Association of Community Colleges ("SWACC"). The relationship between the District and SWACC is such that SWACC is not a component unit of the District for financial reporting purposes. SWACC is governed by a board consisting of a representative from each member district. SWACC provides property liability and property insurance for approximately nineteen community colleges.

Assessed Valuation

The following table sets forth the nine-year history of assessed valuations in the District.

ASSESSED VALUATIONS
Fiscal Years 2001-02 Through 2009-10
Southwestern Community College District

	Local Secured	Utility	Unsecured	Total
2001-02	$19,996,974,547	$13,000,681	$781,501,424	$20,791,476,652
2002-03	22,199,445,187	12,156,364	839,020,572	23,050,622,123
2003-04	24,849,275,487	274,819,306	803,159,809	25,927,254,602
2004-05	28,265,837,083	276,530,868	807,606,588	29,349,974,539
2005-06	33,253,693,398	159,673,592	883,515,177	34,296,882,167
2006-07	37,856,335,222	168,396,042	1,158,851,470	39,183,582,734
2007-08	42,404,608,423	164,471,818	1,132,031,986	43,701,112,227
2008-09	44,178,161,739	245,294,818	1,108,233,556	45,531,690,113
2009-10	40,785,236,492	398,564,818	1,223,753,369	42,407,554,679

Source: California Municipal Statistics, Inc.

Secured Tax Charges and Delinquencies

The annual secured tax levies and delinquencies for fiscal years 2004-05 through 2008-09 are shown below.

SECURED TAX CHARGES AND DELINQUENCIES
Fiscal Years 2004-05 Through 2009-10
Southwestern Community College District

	Secured Tax Charge (1)	Amt. Del. June 30(2)	% Del. June 30(2)
2004-05	$13,528,081.89	--	--
2005-06	15,860,565.25	--	--
2006-07	18,078,350.28	--	--
2007-08	20,330,598.92	--	--
2008-09	21,071,496.87	--	--

(1) 1% General Fund apportionment.
(2) San Diego County utilizes the Teeter Plan for assessment levy and distribution. This method guarantees distribution of 100% of the assessments levied to the taxing entity, with the county retaining all penalties and interest. See "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – Alternative Method of Tax Apportionment – Teeter Plan" in the front part of this Official Statement.
Source: California Municipal Statistics, Inc.

Principal Taxpayers

The following table lists the 20 largest local secured taxpayers in the District in terms of their 2009-10 secured assessed valuations.

LARGEST 2009-10 SECURED TAXPAYERS
Southwestern Community College District

	Property Owner	Primary Land Use	2009-10 Assessed Valuation	% of Total [1]
1.	San Diego Expressway LP	Toll Road	$612,000,000	1.50%
2.	CNL Hotel del Partners LP	Hotel	393,178,056	0.96
3.	Chelsea San Diego Finance LLC	Shopping Center	277,405,645	0.68
4.	Otay Ranch LLC	Residential Development	246,373,391	0.60
5.	Village II of Otay	Residential Development	199,000,000	0.49
6.	GGP-Otay Ranch LP	Shopping Center	175,996,663	0.43
7.	Rohr Inc.	Industrial	166,657,573	0.41
8.	Centermark Properties Inc.	Shopping Center	128,873,468	0.32
9.	Regulo Place Apartments Investors LLC	Apartments	116,184,212	0.28
10.	OV Three Two LLC	Residential Development	92,571,468	0.23
11.	EQR-Teresina LP	Apartments	91,178,914	0.22
12.	EQR-Missions at Sunbow LLC	Apartments	90,550,330	0.22
13.	Shea Homes LP	Residential Development	88,951,516	0.22
14.	Coronado Commonwealth Apartments Inc.	Apartments	87,210,864	0.21
15.	51st St. & 8th Avenue Corporation	Hotel	85,337,692	0.21
16.	Host Hotels & Resorts LP	Hotel	80,597,618	0.20
17.	SV Portfolio LP	Industrial	80,104,884	0.20
18.	Corrections Corp. of America	Correctional Facility	76,621,912	0.19
19.	Chula Vista Center LLC	Shopping Center	71,740,345	0.18
20.	BRE Properties Inc.	Apartments	65,741,063	0.16
			$3,226,275,614	7.91%

(1) 2009-10 Local Secured Assessed Valuation: $40,785,236,492.
Source: California Municipal Statistics, Inc.

Tax Rates

A representative tax rate area located within the District is Tax Rate Area 01-000. The table below demonstrates the total *ad valorem* tax rates levied by all taxing entities in this tax rate area during the five-year period from 2005-06 through 2009-10.

TYPICAL TAX RATES (TRA 01-000)
Fiscal Years 2005-06 Through 2009-10
Southwestern Community College District

	2005-06	2006-07	2007-08	2008-09	2009-10
General	1.00000%	1.00000%	1.00000%	1.00000%	1.00000%
Chula Vista School District	.02738	.02662	.02029	.01762	.02507
Sweetwater Union High School District	.02252	.02016	.04711	.04621	.05580
Southwestern Community College District	.01505	.01405	.01253	.01320	.03442
Metropolitan Water District	.00520	.00470	.00450	.00430	.00430
Total	1.07015%	1.06553%	1.08443%	1.08133%	1.11959%

Source: California Municipal Statistics, Inc.

Accounting Practices

The accounting policies of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California Community College Budget and Accounting Manual. This manual, according to Section 84030 of the California Education Code, is to be followed by all California community college districts. The Governmental Accounting Standards Board ("GASB") has released (i) Statement No. 34, which makes changes in the annual financial statements for all governmental agencies in the United States, especially in recording of fixed assets and their depreciation, and in the way the report itself is formatted, and (ii) Statement No. 35, which makes changes in the required content and format of annual financial statements for public colleges and universities. The revised reporting format provides a comprehensive entity-wide perspective of the District's assets, liabilities, and cash flows and replaces the fund-group perspective previously required. These requirements became effective on June 15, 2002 for the District, as well as for any other governmental agency with annual revenues of between $10 million and $100 million. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred. For audited general fund figures in the revised reporting format described above, see "– Comparative Financial Statements" herein.

The following table shows the District's general fund budgets for fiscal years 2007-08 through 2010, and the District's unaudited actuals for fiscal years 2007-08 through 2009-10.

	Adopted Budget 2007-08	Unaudited Actuals 2007-08[(1)]	Adopted Budget 2008-09	Unaudited Actuals 2008-09 [(1)]	Adopted Budget 2009-10	Unaudited Actuals 2009-10	Tentative Budget 2010-11
REVENUES							
From Federal Sources	$1,538,114	$3,602,433	$1,590,464	$3,310,271	$3,467,987	$4,945,062	$3,931,588
From State Sources	62,403,999	63,651,653	59,344,892	63,016,936	59,426,067	63,537,563	59,011,259
From Local and Intermediate Sources	27,964,439	29,229,475	27,763,893	30,414,676	29,967,806	27,329,567	27,337,280
TOTAL REVENUES	91,906,552	96,483,561	88,699,249	96,741,883	92,861,860	95,812,192	90,280,127
EXPENDITURES							
Academic Salaries	40,862,524	41,690,031	41,431,800	42,267,613	42,765,275	40,375,784	39,056,223
Classified Salaries	23,101,727	24,643,369	22,243,974	24,709,359	22,399,437	23,215,565	23,111,140
Employee Benefits	14,260,949	15,307,693	14,434,748	14,078,946	14,348,170	14,298,632	14,772,129
Supplies and Materials	2,413,343	2,132,377	2,523,830	1,997,153	2,569,981	3,596,567	2,512,947
Other Operating Expenses and Services	11,367,408	9,758,143	10,767,840	9,384,164	11,887,609	9,454,395	10,936,389
Capital Outlay	2,160,054	1,431,813	3,232,563	1,318,135	1,493,063	2,574,303	1,446,944
TOTAL EXPENDITURES	94,166,005	94,963,426	94,634,755	93,755,369	95,463,534	93,515,246	91,835,772
EXCESS/(DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,259,453)	1,520,135	(5,935,506)	2,986,514	(2,601,674)	2,296,947	(1,555,645)
OTHER FINANCING SOURCES	345,000	(86,205)	1,925,000	317,763	--	--	--
OTHER OUTGO	(1,545,650)	(1,079,081)	(1,583,801)	(851,003)	(2,732,676)	(1,786,477)	(1,628,877)
CHANGE IN FUND BALANCE	(3,460,103)	354,849	(5,594,307)	2,453,274	(5,334,350)	510,470	(3,184,522)
BEGINNING FUND BALANCE	10,538,064	10,538,064	11,014,118	11,014,120	13,467,394	13,467,394	13,977,864
Prior Year Adjustments	--	121,205	--	--	--		--
Adjusted Beginning Balance	--	10,659,269	--	--	--	--	--
ENDING FUND BALANCE	$7,077,961	$11,014,118	$5,419,811	$13,467,394	$8,133,044	$13,977,864	$10,793,342

(1) Unaudited general fund results for fiscal years 2007-08 and 2008-09 in object-oriented format provided for comparison. For audited results for such years in revised reporting format, see "—Comparative Financial Statements" herein.

Source: Southwestern Community College District.

Comparative Financial Statements

The table on the following page shows audited financial information for the District for fiscal years 2005-06 through 2008-09.

AUDITED STATEMENT OF TOTAL REVENUES AND EXPENDITURES AND CHANGES IN NET ASSETS
Fiscal Years 2005-06 through 2008-09
Southwestern Community College District

	2005-06	2006-07	2007-08	2008-09
OPERATING REVENUES				
Tuition and Fees	$6,536,747	$6,573,367	$6,278,013	$6,622,151
Grant and Contracts, noncapital:				
Federal	14,786,153	13,862,918	15,050,212	17,692,473
State	8,427,137	9,975,665	10,885,744	2,369,144
Local	8,106,199	1,725,785	--	2,627,315
Total grants and contracts, non capital	31,319,489	25,564,368	25,935,956	22,688,932
Auxiliary Enterprise Sales and Charges	1,993,395	2,878,098	5,580,435	5,913,831
Other operating revenues	--	--	2,205,665	349,689
TOTAL OPERATING REVENUES	39,849,631	35,015,833	40,000,069	35,574,603
OPERATING EXPENSES				
Salaries	57,879,552	62,730,571	67,893,554	67,070,173
Employee benefits	12,487,235	14,632,383	15,288,594	14,569,809
Payments to students	12,392,733	13,138,003	13,499,012	16,731,337
Supplies, materials, and other operating expenses and services	12,195,216	14,477,762	19,463,064	15,800,611
Utilities	1,670,690	--	2,117,439	2,230,710
Interest and fiscal charges	--	--	--	--
Depreciation	2,106,379	2,165,312	2,962,052	3,437,289
TOTAL OPERATING EXPENSES	98,731,805	107,144,031	121,223,715	119,839,929
OPERATING LOSS	(58,882,174)	(72,128,198)	(81,223,646)	(84,265,326)
NONOPERATING REVENUES (EXPENSES)				
State apportionments, noncapital	42,533,357	47,243,068	53,865,208	62,891,624
Local property taxes, non capital	17,266,504	24,112,782	25,911,004	25,706,713
State taxes and other revenues	2,519,891	4,119,742	220,212	65,004
Interest Income, noncapital	2,689,394	2,897,026	2,676,441	1,039,138
State revenues, capital		2,088,034	6,467,089	--
Local revenues, capital		--	5,782	--
Interest Expense	(3,982,185)	(5,655,179)	(4,477,810)	(3,709,960)
Grants and gifts	1,191,049	--	117,811	9,567
Gain (loss) on sale of assets		--	--	--
Transfers in from fiduciary funds	(180,000)	--	--	--
Other non operating revenues (expenses)	--	1,473,268	828,334	(623,195)
TOTAL NONOPERATING REVENUES (EXPENSES)	62,038,010	76,278,741	85,614,071	85,378,891
NET INCREASE IN NET ASSETS	3,155,836	4,150,543	4,390,425	1,113,565
NET ASSETS, BEGINNING OF YEAR	48,374,956	51,756,177	55,128,547	64,272,349(1)
PRIOR YEAR ADJUSTMENT	(27,481)	--	--	--
NET ASSETS, END OF YEAR	$51,503,311	$55,906,720	$59,518,972	$65,385,914

(1) Beginning fund balance as restated on July 1, 2008.
Source: Southwestern Community College District.

District Debt Structure

Long-Term Debt. A schedule of changes in long-term debt for the year ended June 30, 2009 is shown below:

	Balance July 1, 2008	Adjustments	Additions	Deductions	Balance June 30, 2009
Bonds[(1)]					
Lease Revenue Bonds	$1,770,000	--	--	$(70,000)	1,700,000
GO Bond, Series 2004	15,446,369	$(2,452,395)	--	--	12,993,974
GO Bond 2005	38,915,000	--	--	(750,000)	38,165,000
GO Bond, Refunding Series B	36,850,589	(2,300,982)	--	(1,453,618)	33,095,989
Unamortized deferred charges	3,301,979			(295,635)	3,006,344
Retirement Plans Payable					
CalSTRS Retirement Plan	949,949	--	--	(160,152)	789,797
Compensated Absences	2,218,336	--	$30,311	--	2,248,647
TOTALS	$99,452,222	$(4,753,377)	$30,311	$(2,729,405)	$91,999,751

[(1)] Does not reflect the issuance of the 2008 Series A Bonds and 2008 Series B Bonds defined herein.

General Obligation Bonds. On November 7, 2000 the voters of the District approved the issuance of not-to-exceed $89,354,000 of general obligation bonds (the “2000 Authorization”). On May 22, 2001, the District issued the first series of bonds under the 2000 Authorization in the aggregate principal amount of $40,000,000 (the “Series 2001 Bonds”). October 13, 2004 the District issued the second and final series of bonds under the 2000 Authorization in the aggregate principal amount of $49,353,974.05 (the “Series 2004 Bonds”). On February 17, 2005 the District issued its 2005 General Obligation Refunding Bonds in the aggregate principal amount of $40,575,000 (the “2005 Refunding Bonds”) to advance refund all the outstanding Series 2001 Bonds. On August 4, 2005, the District issued its 2005 General Obligation Refunding Bonds, Series B in the aggregate principal amount of $37,456,116.40 (the “2005 Refunding Bonds, Series B”) to advance a refund a portion of the outstanding Series 2004 Bonds.

On November 4, 2008, the voters of the District approved the issuance of not-to-exceed $389,000,000 of general obligation bonds of the District (the “2008 Authorization”). On November 5, 2009, the District issued the first (the “2008 Series A Bonds”) and second (the “2008 Series B Bonds”) series of bonds under the 2008 Authorization in the aggregate principal amounts of $10,225,000 and $89,775,000, respectively.

The following table shows the annual debt service requirements for all of the District’s outstanding general obligation bonded debt.

SOUTHWESTERN COMMUNITY COLLEGE DISTRICT
General Obligation Bonds – Consolidated Debt Service Schedule

Year Ending (August 1)	Series 2004 Bonds	2005 Refunding Bonds	2005 Refunding Bonds, Series B	2008 Series A Bonds	2008 Series B Bonds	Total Debt Service
2011	--	$2,826,525.00	$4,382,337.50	$592,950.00	$6,401,727.00	$14,203,539.50
2012	--	2,918,125.00	4,655,600.00	596,625.00	6,401,727.00	14,572,077.00
2013	--	3,019,325.00	4,941,812.50	719,750.00	6,401,727.00	15,082,614.50
2014	--	3,114,525.00	5,244,137.50	850,725.00	6,401,727.00	15,611,114.50
2015	--	3,213,725.00	5,565,475.00	978,725.00	6,401,727.00	16,159,652.00
2016	--	3,324,725.00	5,903,462.50	1,113,475.00	6,401,727.00	16,743,389.50
2017	--	3,425,975.00	6,265,737.50	1,254,150.00	6,401,727.00	17,347,589.50
2018	--	3,542,300.00	489,412.50	1,394,925.00	6,401,727.00	11,828,364.50
2019	--	3,652,550.00	--	1,540,250.00	6,401,727.00	11,594,527.00
2020	--	3,771,750.00	--	1,689,300.00	6,401,727.00	11,862,777.00
2021	--	3,894,500.00	--	1,846,250.00	6,401,727.00	12,142,477.00
2022	--	4,024,250.00	--	--	8,396,727.00	12,420,977.00
2023	--	4,153,750.00	--	--	8,521,042.00	12,674,792.00
2024	$3,910,000.00	4,290,250.00	--	--	8,629,607.00	16,829,857.00
2025	4,175,000.00	4,431,000.00	--	--	8,742,422.00	17,348,422.00
2026	9,050,000.00	--	--	--	8,850,277.50	17,900,277.50
2027	9,510,000.00	--	--	--	8,951,386.50	18,461,386.50
2028	9,985,000.00	--	--	--	9,044,679.50	19,029,679.50
2029	5,805,000.00	--	--	--	9,139,087.00	14,944,087.00
2030	--	--	--	--	9,227,826.50	9,227,826.50
2031	--	--	--	--	9,314,472.00	9,314,472.00
2032	--	--	--	--	9,392,241.00	9,392,241.00
2033	--	--	--	--	9,464,412.50	9,464,412.50
2034	--	--	--	--	9,528,687.50	9,528,687.50
2035	--	--	--	--	9,588,258.50	9,588,258.50
2036	--	--	--	--	9,640,956.50	9,640,956.50
2037	--	--	--	--	9,679,612.50	9,679,612.50
2038	--	--	--	--	9,717,419.00	9,717,419.00
2039	--	--	--	--	9,736,484.00	9,736,484.00
Total	$42,435,000.00	$53,603,275.00	$37,447,975.00	$12,577,125.00	$235,984,595.50	$382,047,970.50

Lease Revenue Bonds. The 1999 Authority Bonds allocable to the District are payable from lease payments made pursuant to a lease/purchase agreement executed in connection with the issuance of the 1999 Authority Bonds. The following table lists a schedule of such future lease payments payable by the District.

Year Ending (October 1)	Principal	Interest	Total
2010	$80,000.00	$75,540.00	$155,540.00
2011	80,000.00	72,180.00	152,180.00
2012	85,000.00	68,740.00	153,740.00
2013	90,000.00	65,000.00	155,000.00
2014	95,000.00	60,500.00	155,500.00
2015	95,000.00	56,106.25	151,106.25
2016	100,000.00	51,712.50	151,712.50
2017	105,000.00	47,087.50	152,087.50
2018	110,000.00	42,231.25	152,231.25
2019	115,000.00	37,143.75	152,143.75
2020	120,000.00	31,825.00	151,825.00
2021	130,000.00	26,125.00	156,125.00
2022	135,000.00	19,950.00	154,950.00
2023	140,000.00	13,357.50	153,357.50
2024	145,000.00	6,887.50	151,887.50
Total	$1,625,000.00	$674,386.25	$2,299,386.25

The District is expected to make the scheduled lease payment necessary to pay its portion of the October 1, 2010 debt service payment on the 1999 Authority Bonds. Following this payment, and following the deposit and applications of proceeds of the Bonds as set forth in "THE PROJECTS AND REFUNDING PLAN – Southwestern" in the front of part of this Official Statement, the obligation of the District to make lease payments with respect to the 1999 Authority Bonds will cease.

Statement of Direct and Overlapping Debt

Set forth below is a direct and overlapping debt report (the "Debt Report") prepared by California Municipal Statistics, Inc. effective as of September 1, 2010 for debt issued as of August 27, 2010. The Debt Report is included for general information purposes only. The District has not reviewed the Debt Report for completeness or accuracy and makes no representation in connection therewith.

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

The first column in the table names each public agency which has outstanding debt as of the date of the report and whose territory overlaps the District in whole or in part. Column 2 shows the percentage of each overlapping agency's assessed value located within the boundaries of the District. This percentage, multiplied by the total outstanding debt of each overlapping agency (which is not shown in the table) produces the amount shown in column 3, which is the apportionment of each overlapping agency's outstanding debt to taxable property in the District.

SOUTHWESTERN COMMUNITY COLLEGE DISTRICT
Statement of Direct and Overlapping Bonded Debt

2009-10 Assessed Valuation:	$42,407,554,679
Redevelopment Incremental Valuation:	(3,868,434,006)
Adjusted Assessed Valuation:	$38,539,120,673

DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:	% Applicable	Debt 9/1/10
Metropolitan Water District	1.732%	$4,576,290
Southwestern Community College District	**100.000**	**178,038,974**
Coronado Unified School District	100.000	14,055,000
Sweetwater Union High School District	99.989	338,317,196
Chula Vista School District	100.000	75,365,000
San Ysidro School District	100.000	85,697,104
South Bay Union School District	100.000	20,371,918
City of National City	99.794	5,109,453
City of San Diego	4.086	91,526
Otay Municipal Water District, I.D. No 27	100.000	7,260,000
City of Chula Vista Community Facilities Districts	100.000	226,625,000
School District Community Facilities Districts	100.000	200,924,999
City 1915 Act Bonds	100.000	47,245,523
California Statewide Communities Development Authority 1915 Act Bonds	100.000	1,115,001
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		$1,204,792,984

DIRECT AND OVERLAPPING GENERAL FUND DEBT:		
San Diego County General Fund Obligations	11.069%	$45,143,810
San Diego County Pension Obligations	11.069	90,797,696
San Diego County Superintendent of Schools Obligations	11.069	2,330,855
Southwestern Community College District General Fund Obligations	**100.000**	**1,625,000**(1)
Sweetwater Union High School District Certificates of Participation	99.989	10,478,847
Coronado Unified School District Certificates of Participation	100.000	10,205,000
Chula Vista City School District Certificates of Participation	100.000	139,885,000
San Ysidro School District Certificates of Participation	100.000	36,540,000
City of Chula Vista General Fund Obligations	100.000	137,395,000
City of Chula Vista Pension Obligations	100.000	2,655,000
City of National City General Fund Obligations	99.794	3,273,243
City of San Diego General Fund Obligations	4.086	21,280,910
Otay Municipal Water District Certificates of Participation	74.869	44,992,526
San Miguel Consolidated Fire Protection District Certificates of Participation	0.279	19,586
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT		$546,622,473
Less: Otay Municipal Water District (100% supported)		44,992,526
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT		$501,629,947
GROSS COMBINED TOTAL DEBT		$1,751,415,457(2)
NET COMBINED TOTAL DEBT		$1,706,422,931

(1) Excludes lease revenue bonds to be sold.
(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue and tax allocation bonds and non-bonded capital lease obligations. Qualified Zone Academy Bonds (QZABs) are included based on the principal amount due at maturity.

Ratios to 2009-10 Assessed Valuation:
Direct Debt ($178,038,974)... 0.42%
Total Direct and Overlapping Tax and Assessment Debt 2.84%

Ratios to Adjusted Assessed Valuation:
Combined Direct Debt ($179,663,974) 0.47%
Gross Combined Total Debt... 4.54%
Net Combined Total Debt 4.43%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/10: $0

Source: California Municipal Statistics, Inc

APPENDIX F

FISCAL YEAR 2008-09 AUDITED FINANCIAL STATEMENTS OF SOUTHWESTERN COMMUNITY COLLEGE DISTRICT

Southwestern Community College District

Chula Vista, California

Basic Financial Statements

For the year ended June 30, 2009

C&L
Caporicci & Larson
Certified Public Accountants

Southwestern Community College District

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Southwestern Community College District

Introductory Section

Southwestern Community College District is located in Chula Vista, San Diego County. The District presently operates one primary campus in Chula Vista with extension sites in San Ysidro and National City. There have been no changes in the District's boundaries during the current year.

The Governing Board for the fiscal year ended June 30, 2009 was composed of the following members:

Member	Office	Term Expires
Jean Roesch, Ed.D.	President	December 2012
Yolanda Salcido	Vice President	December 2010
Terri Valladolid	Board Member	December 2010
Nick Aguilar	Board Member	December 2012
Jorge Dominguez, Ph.D.	Board Member	December 2010
Chris DeBauche	Student Board Member	May 2010

The Executive and Senior Administration for the fiscal year ended June 30, 2009 was composed of the following members:

Member	Office
Dr. Raj K. Chopra	Superintendent/President
Nicholas C. A. Alioto, CPA	Vice-President of Business & Financial Affairs
Michael Kerns	Vice-President of Human Resources
Dr. Mark Meadows	Vice-President of Academic Affairs
Angelica Suarez	Vice-President of Student Affairs

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C&L
Caporicci & Larson
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California

We have audited the accompanying basic financial statements of the Southwestern Community College District (District) as of and for the year ended June 30, 2009, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. We did not audit the financial statements of the Southwestern Community College District Foundation (Foundation), a discretely presented component unit of the District. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion on the basic financial statements of the District, insofar as it relates to the Foundation, is based solely on the report of the other auditors.

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

As discussed in Note 13 to the basic financial statements, subsequent to the financial statements date of June 30, 2009, the State of California (State) has experienced a significant financial and budget shortfall. Lawmakers passed a bill (AB 3X 37) which implements a number of funding deferrals to various government sectors including the California Community Colleges, University of California and California State University. This action by the State is very significant to the District and may affect the District's ongoing operations. Certain lawsuits are in process to stop such State action.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the District as of June 30, 2009, the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

As described in Note 1 to the basic financial statements, the District implemented Governmental Accounting Standards Board Statements No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, No. 52, *Land and Other Real Estate Held as Investments by Endowments*, No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards.*

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Irvine, California 92606

Sacramento
777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego
4858 Mercury, Suite 106
San Diego, California 92111

To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California

The District has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although is not required to be part of the basic financial statements.

The accompanying Required Supplementary Information, such as Schedule of Funding Progress for Defined Benefit Plans, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

In accordance with *Government Auditing Standards,* we have also issued our report dated December 21, 2009, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Schedule of Expenditures of Federal Awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Not-for-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statement taken as a whole.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the District, taken as a whole. The accompanying Supplementary Information is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory Section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on the Introductory Section.

Caporicci & Larson

San Diego, California
December 21, 2009

BASIC FINANCIAL STATEMENTS

Southwestern Community College District
Statement of Net Assets
June 30, 2009

	District	Foundation
ASSETS		
Current assets:		
Cash and investments	$ 33,152,216	$ 594,187
Restricted cash and investments	6,070,375	-
Accounts receivable	12,542,934	9,585
Inventories	1,464,181	-
Prepaid items	4,976	-
Total current assets	53,234,682	603,772
Noncurrent assets:		
Capital assets, net	116,978,668	-
Total noncurrent assets	116,978,668	-
Total assets	170,213,350	603,772
LIABILITIES AND NET ASSETS		
Liabilities:		
Current liabilities:		
Accounts payable and accrued liabilities	1,643,421	17,113
Payroll and related liabilities	3,730,377	-
Unearned revenue	7,360,696	-
Compensated absences - due within one year	401,740	-
Retirement plan payable - due within than one year	160,000	-
Long-term liabilities - due within one year	2,666,941	-
Total current liabilities	15,963,175	17,113
Noncurrent liabilities:		
Insurance claims payable	93,191	-
Compensated absences - due in more than one year	1,846,907	-
Retirement plan payable - due in more than one year	629,797	-
Long-term liabilities - due in more than one year	86,294,366	-
Total noncurrent liabilities	88,864,261	-
Total liabilities	104,827,436	17,113
Net Assets:		
Invested in capital assets, net of related debt	28,017,361	-
Restricted for:		
Special projects	-	501,602
Capital projects	37,201	-
Debt service	6,033,174	-
Total restricted	6,070,375	501,602
Unrestricted	31,298,178	85,057
Total net assets	$ 65,385,914	$ 586,659

See accompanying notes to basic financial statements.

Southwestern Community College District
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2009

	District	Foundation
OPERATING REVENUES:		
Tuition and fees	$ 6,622,151	$ -
Grants and contracts, non-capital:		
Federal	17,692,473	-
State	2,369,144	-
Local	2,627,315	-
Total grants and contracts, non-capital	22,688,932	-
Auxiliary enterprise sales and charges, net	5,913,831	67,917
Other operating revenues	349,689	-
Total operating revenues	35,574,603	67,917
OPERATING EXPENSES:		
Salaries	67,070,173	-
Employee benefits	14,569,809	-
Payments to students	16,731,337	-
Supplies, materials, and other expenses	15,800,611	172,743
Utilities	2,230,710	-
Depreciation	3,437,289	-
Total operating expenses	119,839,929	172,743
Operating income (loss)	(84,265,326)	(104,826)
NONOPERATING REVENUE (EXPENSES):		
State apportionments, non-capital	62,891,624	-
Local property taxes, non-capital	25,706,713	-
State taxes and other revenues	65,004	-
Investment income, non-capital	1,039,138	28,242
Interest expense	(3,709,960)	(146,299)
Grants and gifts	9,567	-
Other nonoperating revenues (expenses)	(623,195)	-
Total nonoperating revenues (expenses), net	85,378,891	(118,057)
Net change in net assets	1,113,565	(222,883)
NET ASSETS:		
Beginning of year, as restated (Note 12)	64,272,349	809,542
End of year	$ 65,385,914	$ 586,659

See accompanying notes to basic financial statements.

Southwestern Community College District
Statement of Cash Flows
For the year ended June 30, 2009

	District	Foundation
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	$ 4,051,713	$ -
Grants and contracts	22,688,932	-
Payments for supplies and services	(16,736,324)	(160,975)
Payments for utilities	(2,230,710)	-
Payments to/on behalf of employees	(80,742,275)	-
Payments to students	(16,731,337)	-
Auxiliary enterprise sales and charges	5,913,831	63,588
Other operating revenues and expenses	657,489	-
Net cash provided (used) by operating activities	(83,128,681)	(97,387)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State apportionments	62,891,624	
Local property taxes	25,706,713	-
State taxes and other revenues	65,004	-
Other	(613,628)	-
Net cash provided (used) by noncapital financing activities	88,049,713	-
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Net change in capital assets	(6,036,195)	-
Principal paid on long-term debt	(2,273,618)	-
Payment of interest and fees	(4,005,595)	-
Net cash provided (used) by capital financing activities	(12,315,408)	-
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest and investment proceeds	1,039,138	(118,057)
Net cash provided (used) by investing activities	1,039,138	(118,057)
Net increase (decrease) in cash and investments	(6,355,238)	(215,444)
CASH AND INVESTMENTS:		
Beginning of year	45,895,592	809,631
End of year	$ 39,540,354	$ 594,187
RECONCILIATION OF CASH AND INVESTMENTS TO STATEMENTS OF NET ASSETS:		
Cash and investments	$ 33,152,216	$ 594,187
Restricted cash and investments	6,070,375	-
Total cash and investments	$ 39,222,591	$ 594,187

See accompanying notes to basic financial statements.

Southwestern Community College District
Statement of Cash Flows, Continued
For the year ended June 30, 2009

	District	Foundation
RECONCILIATION OF NET OPERATING REVENUES (EXPENSES) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	$ (84,265,326)	$ (104,826)
Adjustments to reconcile net income (loss) to net cash provided (used) by operating activities:		
Prior period adjustments	317,763	-
Depreciation expense	3,437,289	-
Change in assets and liabilities:		
Receivables	(4,655,689)	(4,329)
Inventories	56,608	-
Prepaid items	206,774	-
Accounts payable and accrued liabilities	(1,199,095)	11,768
Payroll and related liabilities	1,027,548	-
Unearned revenue	2,085,251	-
Insurance claims payable	(9,963)	-
Retirement plan payable	(160,152)	-
Compensated absences	30,311	-
Net cash provided (used) by operating activities	$ (83,128,681)	$ (97,387)

See accompanying notes to basic financial statements.

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FIDUCIARY FUND FINANCIAL STATEMENTS

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Southwestern Community College District
Statement of Fiduciary Net Assets
June 30, 2009

	Associated Student Trusts	Academic Affairs	Total
ASSETS			
Current assets:			
Cash and investments	$ 625,896	$ 492,726	$ 1,118,622
Accounts receivable	46,490	9,861	56,351
Other assets	43,983	-	43,983
Total assets	716,369	502,587	1,218,956
LIABILITIES AND NET ASSETS			
Liabilities:			
Accounts payable and accrued liabilities	27,356	493,904	521,260
Deposits payable	10,262	-	10,262
Total liabilities	37,618	493,904	531,522
Net Assets:			
Unrestricted	678,751	8,683	687,434
Total net assets	$ 678,751	$ 8,683	$ 687,434

See accompanying notes to basic financial statements.

Southwestern Community College District
Statement of Changes in Fiduciary Net Assets
For the year ended June 30, 2009

	Associated Student Trusts	Academic Affairs	Total
OPERATING REVENUES:			
Student fees	$ 398,460	$ -	$ 398,460
Interest and investment income	-	7,145	7,145
Total operating revenues	398,460	7,145	405,605
OPERATING EXPENSES:			
Salaries and benefits	101,514	-	101,514
Payments to students	18,000	-	18,000
Supplies, materials, and other expenses	261,805	10,092	271,897
Total operating expenses	381,319	10,092	391,411
Operating income (loss)	17,141	(2,947)	14,194
TRANSFERS:			
Transfers from District	30,000	-	30,000
Total transfers	30,000	-	30,000
Net Change in Net Assets	47,141	(2,947)	44,194
NET ASSETS:			
Beginning of year	631,610	11,630	643,240
End of year	$ 678,751	$ 8,683	$ 687,434

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Southwestern Community College District (the "District") is a political subdivision of the State of California and provides higher educational services in the County of San Diego, State of California. The District is classified as a state instrumentality under Internal Revenue Code Section 115 and is also classified as a charitable organization under Internal Revenue Code 501(c)(3) and is, therefore, exempt from federal and state income taxes.

In evaluating how to define the District for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in generally accepted accounting principles and GASB Statement No. 14. The District evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete.

The financial reporting entity, as defined by GASB, consists of the District, organizations for which the District is financially accountable, and any other organization for which the nature and significance of their relationship with the District are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The following criteria regarding financial accountability were considered by the District in its evaluation of District organizations and activities for the year ended June 30, 2009:

- Financial interdependency - the District receives financial support or provides financial benefit to the organization, is responsible for or has directly or indirectly guaranteed the organization's debts.

- Authoritative appointment of governing authority - the District's Board of Trustees appoints the organization's governing authority and maintains a significant continuing relationship with the governing authority pertaining to the functions of the organization.

The District determined that the following organization is a discretely presented component unit:

<u>The Southwestern College Foundation</u>
The Southwestern College Foundation (Foundation) is a California not-for-profit public benefit corporation organized and incorporated in 1982. The Foundation was established for the purpose of receiving and distributing contributed funds to promote the general welfare of the Southwestern Community College District.

B. Basis of Accounting and Measurement Focus

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Basic Financial Statements

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities. The basic financial statements include a Statement of Net Assets, Statement of Activities and Change in Net Assets, and Statement of Cash Flows. Fiduciary activities are reported separately but are also included in the District statements.

The basic financial statements are presented on an *"economic resources"* measurement focus and the accrual basis of accounting. Under accrual basis of accounting, revenues are recognized when earned while expenses are recognized when the liability is incurred.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables.

The District applies all applicable GASB pronouncements (including all National Council on Governmental Accounting (NCGA) Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the Committee on Accounting Procedure. The District applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements.

C. Encumbrances

The District utilizes an encumbrance accounting system under which purchase orders, contacts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances are liquidated when the commitments are paid and all outstanding encumbrances were liquidated at June 30 since they do not constitute expenditures or liabilities.

D. Cash, Cash Equivalents, and Investments

The District pools its available cash for investment purposes. The District considers pooled cash and investment amounts with original maturities of three months or less to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investment and for External Investment Pools,* highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents, and Investments, Continued

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No. 3)*, the District adheres to certain disclosure requirements, if applicable for deposit and investment risks, that are specified for the following areas:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentration of Credit Risk
- Foreign Currency Risk

E. Restricted Cash, Cash Equivalents and Investments

Cash that is externally restricted for contractual obligations such as debt service payments, sinking or reserve funds, or to purchase or construct capital or other non-current assets is classified as a non-current asset in the statement of net assets.

F. Accounts Receivable

Accounts receivable consist of amounts due from the Federal government, State and local governments or private resources, in connection with reimbursement of allowable expenditures made pursuant to the District's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts. There were no significant receivables, which are not scheduled for collection within one year or year-end.

G. Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method. The cost is recorded as expenditure at the time individual inventory items are withdrawn from the stores inventory for consumption.

H. Bond Discounts, Premiums, Issuance Costs and Refunding Losses

In governmental fund types, bond discounts, premium, issuance costs, and refunding losses are recognized in the period of issuance. In government-wide financial statements, they are amortized over the life of the bond and charged to expense accounts.

I. Compensated Absences

Accrued compensated absences benefits are recorded as liabilities as vested and earned, but not taken. Employees are allowed to carry over a limited number of vacation days from year to year. The District has no commitment for accumulated sick leave and no liability is recorded.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Capital Assets

Capital assets, which include site and site improvements, buildings, equipment and infrastructure assets (e.g. roads, parking lots, sidewalks, and similar items), are defined by the District as assets with an initial cost of $5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Assets that do not meet the capitalization threshold of $5,000 ($1,000 for enterprise and costs for routine maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are expensed as incurred. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Depreciation of capital assets is computed using a half-year convention on a straight line basis over the estimated useful life of the asset as follows:

Asset	Years
Infrastructure	35-60
Buildings	50
Equipment/Vehicles	5-6
Technology equipment	3

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the District has included all infrastructures in the basic financial statements.

The District defines infrastructure as the basic physical assets that allow the District to function. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during capital assets construction, if any, is capitalized as part of the asset cost.

For all infrastructure systems, the District elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting.

K. Net Assets

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Restricted - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted - This amount is all net assets that do not meet the definition of *"invested in capital assets, net of related debt"* or *"restricted" net* assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Unearned Revenue

Unearned revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but are earned in the subsequent accounting period. Unearned revenues also include amounts received from grant and contract sponsors that have not yet been earned.

M. Property Taxes

The County of San Diego (County) bills and collects property taxes on behalf of numerous special districts and incorporated cities, including the District. The District's collections of current year's taxes are received through periodic apportionments from the County. The County's tax calendar is from July 1 to June 30. Property taxes attach as a lien on property on March 1. Taxes are levied on July 1 and are payable in two equal installments on November 15 and March 15, and become delinquent after December 10 and April 10, respectively.

Since the passage of California's Proposition 13, beginning with Fiscal Year 1978-79, general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of any property sold or the cost of any new construction after the 1975-76 valuation.

Taxable values of properties (exclusive of increases related to sales and new construction) can rise at a maximum of 2% per year.

This Proposition 13 limitation on general property taxes does not apply to taxes levied to pay the debt service on any indebtedness approved by the voters prior to June 6, 1978 (the date of the passage of Proposition 13).

Property tax revenue is recognized in the fiscal year for which the taxes have been levied based on actual and estimated receipts. Adjustments to estimates are made at the time of final apportionment for the applicable fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the District and, therefore, are not recorded as revenue until collected.

N. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government.

The State of California makes direct on-behalf payments for retirement benefits to the State Teachers Retirement System on behalf of all community college districts in California; however, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

O. Classification of Revenues

The District has classified its revenues as either operating or non-operating. Certain significant revenue streams relied upon for operations are recorded as non-operating revenues, as defined by GASB Statement No. 35, *Basic Financial Statements - and Management's Discussion and Analysis - for Public Colleges and Universities*, including state appropriations, local property taxes and investment income.

Revenues are classified according to the following criteria:

Operating Revenues

Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

Non-operating Revenues

Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenue sources as described in GASB Statement No. 34, such as state appropriations, state and local property taxes and investment income.

P. Scholarship Discounts and Allowances

Student tuition and fee revenues and certain other revenues from students are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the District and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell Grants, and other federal, state or non-governmental programs are recorded as operating revenues in the District's financial statements. To the extent that revenues from such programs are used to satisfy tuition, fees, and other student charges, the District has recorded a scholarship discount and allowance.

Q. Use of Estimates

The preparation of its basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenues and expenses in the basic financial statements and the accompanying notes. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

R. Implementation of New GASB Pronouncements

In fiscal year 2009, the District adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowment*
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. It is intended to make it easier for preparers of state and local government financial statements to identify and apply the "GAAP hierarchy," which consists of sources of accounting principles used in the preparation of financial statements so that they are presented in conformity with GAAP and the framework for selecting those principles.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The Statement No. 56 guidance addresses three issues from the AICPA's literature—related party transactions, going concern considerations, and subsequent events.

2. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2009:

	Business-Type Activities	Fiduciary Fund Financial Statements	Foundation	Total
Cash and investments	$ 33,152,216	$ 1,118,622	$ 594,187	$ 34,865,025
Restricted cash and investments	6,070,375	-	-	6,070,375
	$ 39,222,591	$ 1,118,622	$ 594,187	$ 40,935,400

2. CASH AND INVESTMENTS, Continued

Cash, cash equivalents, and investments consisted of the following at June 30, 2009:

Demand Deposits:	
Cash on hand	$ 50,000
Cash in bank accounts	3,223,891
Total demand deposits	3,273,891
Investments:	
San Diego County Investment Pool	36,809,619
Investment Contract	851,890
Total investments	37,661,509
Total cash and investments	$ 40,935,400

San Diego County Investment Pool

As provided for by Education Code §41001, a significant portion of the District's cash balances are deposited with the County Treasurer to enhance interest earnings through County investment activities. In accordance §53601 and §53602 of the California Government Code, the County may invest in the following types of investments:

- Local bonds or notes
- Securities of the U.S. Government or its agencies
- Registered State warrants or treasury notes or bonds of the State
- Small Business Administration loans
- Negotiable Certificates of Deposit
- Bankers Acceptances
- Commercial Paper (Prime Quality)
- Local Agency Investment Fund (State Pool) Deposits
- Passbook Savings Account Demand Deposits
- Medium-term notes (remaining maturity of five years or less; rated "A" or better)
- Repurchase agreements or reverse repurchase agreements
- Mortgage pass-through securities

The District is a participant in the County Treasury Pool (County Pool) which is regulated under the oversight of the Treasurer of the County of San Diego. The fair value of the District's investment in the County Pool is reported in the accompanying financial statements based upon the District's pro-rate a share of the fair value provided by the County Pool for the entire portfolio. The balance available for withdrawal is based on the accounting records maintained by the Pool. Included in the County Pool's investment portfolio are collateralized and negotiable certificates of deposit, floating rate securities issued by federal agencies and corporations, money market funds, repurchase agreements and commercial paper.

At June 30, 2009, the District had $36,809,619 invested in the San Diego County Investment Pool.

2. CASH AND INVESTMENTS, Continued

Restricted Cash and Investments

As of June 30, 2009, the District had restricted cash and investment totaling $6,070,375. This amount is restricted to be used for acquisition, construction, renovation, repair and modernization of certain District property and facilities and to refund or advance refund certain obligations of the District.

Credit Risk

The District's investments are not rated by the nationally recognized statistical rating organizations.

Concentration of Credit Risk

The investment policy limits the percentage of the portfolio that can be invested in certain types of investments. The District is in compliance with the investment policy with respect to investment type percentages for the total portfolio.

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the broker or dealer to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party.

The California Government Code requires California banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the District's name.

The market value of pledged securities must equal at least 110% of the District's cash deposits. California law also allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150% of the District's total cash deposits. The District may waive collateral requirements for cash deposits which are fully insured up to $250,000 by the Federal Deposit Insurance Corporation. The District, however, has not waived the collateralization requirements.

3. ACCOUNTS RECEIVABLE

The following is a summary of receivables at June 30, 2009:

Grants:		
Federal	$	752,102
State		276,163
Local		1,406,589
Total grants		2,434,854
State Apportionments		8,265,684
Lottery Apportionments		995,529
Other		846,867
Total	$	12,542,934

4. CAPITAL ASSETS

The following summarizes the changes in the various capital asset categories for the year ended June 30, 2009:

	Balance June 30, 2008	Additions	Deletions	Reclassification	Balance June 30, 2009
Nondepreciable Assets:					
Land	$ 9,839,823	$ -	$ -	$ -	$ 9,839,823
Construction in progress	12,125,270	211,160	-	(12,125,270)	211,160
Total nondepreciable assets	21,965,093	211,160	-	(12,125,270)	10,050,983
Depreciable Assets:					
Site improvements	11,096,363	3,195,744	-	12,125,270	26,417,377
Buildings	101,477,832	3,584,565	(2,120,059)	-	102,942,338
Equipment	4,979,896	266,828	-	-	5,246,724
Total depreciable assets, at costs	117,554,091	7,047,137	(2,120,059)	12,125,270	134,606,439
Less accumulated depreciation:					
Site improvements	(4,273,770)	(839,305)	-	-	(5,113,075)
Buildings	(17,525,110)	(2,110,585)	897,957	-	(18,737,738)
Equipment	(3,340,542)	(487,399)	-	-	(3,827,941)
Total accumulated depreciation	(25,139,422)	(3,437,289)	897,957	-	(27,678,754)
Total depreciable assets, net	92,414,669	3,609,848	(1,222,102)	12,125,270	106,927,685
Total capital assets, net	$ 114,379,762	$ 3,821,008	$ (1,222,102)	$ -	$ 116,978,668

Depreciation expense for capital assets for the year ended June 30, 2009 was $3,437,289.

5. UNEARNED REVENUE

Unearned revenue consists of grant monies, student fees, and other revenues that have been received as of June 30, 2009 for the subsequent 2008-2009 year. As of June 30, 2009, the District's unearned revenue balance consists of the following:

Federal sources	$	75,759
State sources		4,703,121
Enrollment fees		1,355,800
Other local sources		1,226,016
	$	7,360,696

6. LONG-TERM DEBT

The following is a summary of the changes in long-term debt for the year ended June 30, 2009:

	Balance at July 1, 2008	Prior Period Adjustments	Additions	Deletions	Balance at June 30, 2009	Due within One Year	Due in More Than One Year
Bonds payable:							
Lease Revenue Bonds	$ 1,770,000	$ -	$ -	$ (70,000)	$ 1,700,000	$ 75,000	$ 1,625,000
GO Bond 2000, Series 2001	15,446,369	(2,452,395)	-	-	12,993,974	-	12,993,974
GO Bond 2005	38,915,000	-	-	(750,000)	38,165,000	855,000	37,310,000
GO Bond 2005, Refunding Series B	36,850,589	(2,300,982)	-	(1,453,618)	33,095,989	1,441,306	31,654,683
Unamortized deferred charges	3,301,979	-	-	(295,635)	3,006,344	295,635	2,710,709
Total bonds payable	96,283,937	(4,753,377)	-	(2,569,253)	88,961,307	2,666,941	86,294,366
Retirement plans payable:							
CalSTRS Retirement Plan	949,949	-	-	(160,152)	789,797	160,000	629,797
Compensated Absences	2,218,336	-	30,311	-	2,248,647	401,740	1,846,907
Total	$ 99,452,222	$ (4,753,377)	$ 30,311	$ (2,729,405)	$ 91,999,751	$ 3,228,681	$ 88,771,070

Lease Revenue Bond

In January 1999, the District entered into a trust indenture with the California Community College Financing
Authority to issue lease revenue bonds in order to provide funds for public capital improvements. The bonds consist of Series 1999A bonds of which the District's portion of the issuance was $4,460,000. Interest is payable April 1 and October 1, commencing on April 1, 1999, at rates ranging from 3.5% to 5.0%. Principal is payable October 1, commencing October 1, 2000 and through the maturity date October 1, 2024.

The District pledged all lease revenue to repay the outstanding principal and interest of the Lease Revenue Bonds. Total principal and interest remaining on the bonds is $2,413,874, payable through fiscal year 2025.

6. LONG-TERM DEBT, Continued

The annual requirement for the lease revenue bonds outstanding at June 30, 2009 is as follows:

Year Ending June 30,	Principal	Interest	Total
2010	$ 75,000	$ 77,078	$ 152,078
2011	80,000	73,860	153,860
2012	80,000	70,460	150,460
2013	85,000	66,870	151,870
2014	90,000	62,750	152,750
2015-2019	505,000	245,959	750,959
2020-2024	640,000	113,453	753,453
2025	145,000	3,444	148,444
Total	$ 1,700,000	$ 713,874	$ 2,413,874

General Obligation Bonds - 2000

In January 2005, the District authorized the sale and issuance of 2005 General Obligation Bonds, Refunding of Election 2000, Series 2001 in the amount of $40,575,000. Proceeds from the sale of the bonds were used to advance refund the entire outstanding principle amount of the District's General Obligation Bonds, Series 2001 and to fund additional capital projects authorized by the initial measure. Interest is payable February 1 and August 1, commencing August 1, 2005 at rates ranging from 3.0% to 5.2%. Principal is payable August 1, commencing August 1, 2024 and through the maturity date August 1, 2029.

The bonds are solely payable from *ad valorem* property taxes levied. The District pledged all *ad valorem* property tax levied and collected to repay the outstanding principal and interest of the General Obligation Bonds - 2000. Total principal and interest remaining on the bonds is $41,197,094, payable through 2030.

The annual requirements for debt service and accretion outstanding at June 30, 2009 are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	$ -	$ -	$ -
2011	-	-	-
2012	-	-	-
2013	-	-	-
2014	-	-	-
2015-2019	-	-	-
2020-2024	-	-	-
2025-2029	11,441,775	26,076,719	37,518,494
2030	1,552,199	2,126,401	3,678,600
Total	$ 12,993,974	$ 28,203,120	$ 41,197,094

6. LONG-TERM DEBT, Continued

General Obligation Bonds - 2005

In September 2004, the District authorized the sale and issuance of 2005 General Obligation Bonds in the amount of $49,353,974. Proceeds from the sale of the bonds will be used to finance the renovation of classrooms and other college facilities throughout the District. These bonds were partially refunded in August 2005. Interest on the remaining amount is payable August 1, commencing August 1, 2005 at rates ranging from 3.0% to 5.2%. Principal is payable August 1, commencing August 1, 2005 and through the maturity date August 1, 2025.

The bonds are solely payable from *ad valorem* property taxes levied. The District pledged all *ad valorem* property tax levied and collected to repay the outstanding principal and interest of the General Obligation Bonds - 2005. Total principal and interest remaining on the bonds is $58,091,813, payable through 2026.

The annual requirement for debt service payments outstanding at June 30, 2009 is as follows:

Year Ending June 30,	Principal	Interest	Total
2010	$ 855,000	$ 1,783,300	$ 2,638,300
2011	965,000	1,756,000	2,721,000
2012	1,085,000	1,719,825	2,804,825
2013	1,220,000	1,673,725	2,893,725
2014	1,370,000	1,621,925	2,991,925
2015-2019	9,440,000	6,950,263	16,390,263
2020-2024	15,125,000	4,008,150	19,133,150
2025-2026	8,105,000	413,625	8,518,625
Total	$ 38,165,000	$ 19,926,813	$ 58,091,813

General Obligation Bonds - 2005 Refunding Series B

In August 2005, the District authorized the sale and issuance of 2005 General Obligation Refunding Bonds, Series B, in the amount of $37,456,116. Proceeds from the sale of the bonds were used to advance refund a portion of the District's 2004 General Obligation Bonds, Election of 2000, Series 2004. Interest is payable February 1 and August 1, commencing February 1, 2006 at 5.25%. Principal is payable August 1, commencing August 1, 2006 and through the maturity date August 1, 2018. The bonds were issued at a premium of $5,786,135. In addition, there were $640,857 of bond issuance costs and a $947,394 refunding adjustment associated with the partial refunding of the 2004 General Obligation Bonds.

The bonds are solely payable from *ad valorem* property taxes levied. The District pledged all *ad valorem* property tax levied and collected to repay the outstanding principal and interest of the General Obligation Bonds - 2005 Refunding Series B. Total principal, interest, and accretion remaining on the bonds is $44,237,135, payable through 2018.

6. LONG-TERM DEBT, Continued

General Obligation Bonds - 2005 Refunding Series B, Continued

The annual requirements for debt service and accretion outstanding at June 30, 2009 are as follows:

Year Ending June 30,	Principal	Interest	Accretion	Total
2010	$ 1,441,306	$ 1,587,338	$ 987,006	$ 4,015,650
2011	1,419,683	1,587,338	560,159	3,567,180
2012	2,795,000	1,513,969	-	4,308,969
2013	3,215,000	1,356,206	-	4,571,206
2014	3,670,000	1,175,475	-	4,845,475
2015-2019	20,555,000	2,373,655	-	22,928,655
Total	$ 33,095,989	$ 9,593,981	$ 1,547,165	$ 44,237,135

California State Teachers' Retirement System (CalSTRS) Retirement Plan

In November 2004, the District provided a retirement incentive under AB1207, The Golden Handshake Additional Service Credit for State Teachers Retirement System Members, as designated by the CalSTRS Retirement Incentive Program. The Program's main feature is the purchase by the District of two years of service credit plus two years of age credit towards retirement for academic employees who meet the qualifications. A total of sixteen retirees qualified for the program, which resulted in an obligation to the District in the amount of $1,653,201. At June 30, 2009, the outstanding balance of CalSTRS was $789,797.

Compensated Absences

The District's liability for vested and unpaid compensated absences (accrued vacation) has been accrued and amounts to $2,248,647.

7. OTHER POST EMPLOYMENT BENEFITS

Plan Description

The District provides post employment health care benefits for eligible retirees. The retiree must have worked for at least ten years (administrators) to fifteen years (classified/academic). The following is a summary description of the current retiree benefit plan:

	Faculty	Classified	Management*
Benefit types provided	Medical and Dental	Medical only	Medical, Dental, and Medicare Part B
Duration of Benefits	Lifetime	Lifetime	Lifetime
Required Service	15 Years	15 Years	10 Years
Minimum Age	55	50	55
Dependent Coverage	No	No	No
College Contribution %	50% (not less than $1,000 per year)	100%	100%
College Cap	None	$550 per year after age 65	$500 per year after age 65**

* Educational administrators hired after 12/31/2003 are not entitled to any District-paid benefits.
** Employees hired prior to 1/1/2004 are not subject to this cap.

Funding Policy

In fiscal year 2008, the District contributed $1,000,000 to the Community College League of California - Joint Powers Authority (CCLC-JPA) and has adopted a goal of fully funding the plan on a fully projected basis by allowing the $1,000,000 to grow with interest until it is sufficient to pay all future retiree benefits. The District contributed an additional $500,000 during fiscal year 2009. At June 30, 2009, the market value of the irrevocable trust was $1,389,717.

Annual OPEB Cost

For the year ended June 30, 2009, the District's Annual Required Contribution ("ARC") for OPEB was $766,468. The District's annual OPEB cost, the percentage of annual OPEB cost to be contributed to the plan, and the Net OPEB Obligation are as follows:

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Change in OPEB Assets/ (Liabilities)	Net OPEB Assets/ (Liabilities)
6/30/2008	$ 824,684	$ 1,000,000	121%	$ 175,316	$ 175,316
6/30/2009	766,468	785,887	103%	19,419	194,735

7. OTHER POST EMPLOYMENT BENEFITS, Continued

Most Recent Actuarial Study – Status of Funding Progress

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liabilities	Overfunded (Unfunded) Actuarial Accrued Liabilities	Funded Ratio	Covered Payroll	Overfunded (Unfunded) Actuarial Liabilities as Percentage of Covered Payroll
12/1/2005	$ -	$ 10,778,362	$ (10,778,362)	0.00%	$ 3,434,028	313.87%
8/1/2009	1,389,717	9,672,114	(8,282,397)	14.37%	3,872,045	213.90%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend rates. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of August 1, 2009. In that valuation, the Entry Aged Normal Cost Method was used. The actuarial assumptions included a 7 percent investment rate of return (net of administrative expenses), an annual healthcare cost trend rate of 4 percent, and a 3 percent payroll increase per year. All assumptions reflect an implicit 3 percent general inflation assumption. The District's unfunded actuarial accrued liability is being amortized as a level dollar amount on a rolling basis. The remaining amortization period as of June 30, 2009 was 30 years.

8. EMPLOYEE RETIREMENT SYSTEMS

California State Teachers' Retirement System (CalSTRS)

Most full-time certificated (academic) employees participate in CalSTRS, a cost-sharing multiple-employer contributory public employee retirement system defined benefit pension plan. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law (Part 13 of the California Education Code, §22000 et seq.). CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS' annual financial report may be obtained from the CalSTRS Executive Office located at 7667 Folsom Boulevard, Sacramento, California 95826.

Under State Teachers' Retirement Law, certain early retirement incentives require the employer to pay the present value of the additional benefit, which may be paid on either a current or deferred basis. The District has no obligations to CalSTRS for early retirement incentives granted to terminate employees as of June 30, 2009.

Funding Policy

Active plan members are required to contribute 8.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalSTRS Teachers' Retirement Board. The required employer rate for fiscal year 2008-2009 was 8.25% of annual payroll. The contribution requirements on the plan members are established by state statute. The District's contributions to CalSTRS for the fiscal year ended June 30, 2009, 2008 and 2007 were $3,072,636, $3,078,655, and $2,891,579, respectively, and equal to 100% of the Annual Required Contributions.

Most Recent Actuarial Study – Status of Funding Progress

The District's CalSTRS retirement plan is part of the County of San Diego Pool, a cost-sharing multiple-employer contributory public employee retirement system defined benefit pension plan. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required as information is not specific to the District.

California Public Employees' Retirement System (CalPERS)

Most full-time classified (non-academic) employees participate in the School Employer Pool under CalPERS, a cost-sharing multiple-employer contributory public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law (Part 3 of the California Government Code, §22000 et seq.). CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office located at 400 P Street, Sacramento, CA 95814.

8. EMPLOYEE RETIREMENT SYSTEMS, Continued

Funding Policy

Active plan members are required to contribute 7.0% of their salary, and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2008-2009 was 9.428% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ended June 30, 2009, 2008 and 2007 were $2,050,090, $2,080,883, and $1,772,603, respectively, and equal 100% of the annual required contributions.

Most Recent Actuarial Study – Status of Funding Progress

The District's CalPERS retirement plan is part of the County of San Diego Pool, a cost-sharing multiple-employer contributory public employee retirement system defined benefit pension plan. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required as information is not specific to the District.

9. RISK MANAGEMENT

The District's risks management activities are recorded in the General and Self-Insurance Funds. The purpose of the funds is to administer employee dental, property and liability, and worker's compensation insurance programs for the District.

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has one self-insurance fund (the Internal Service Fund) to account for and finance its uninsured risks of loss. The Internal Service Fund provides dental and vision coverage to employees.

Significant losses are covered by commercial insurance for all major programs. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Claims Liabilities

The increase in Incurred But Not Paid (IBNP) claims is calculated by subtracting an estimate of outstanding claims at December 31, 2005 from an estimate of claims still outstanding at December 31, 2006. The estimate of claims outstanding at December 31, 2006 is based on an actuarial method known as the Bornhuetter-Ferguson Method. The proportion of claims expected to be outstanding is based on completion factors derived from actual College claim lag data. Using this method, the IBNP claims are estimated as the sum, for all prior months, of: Expected Incurred Claims for the months times Proportion of Claims Expected to Be Still Outstanding.

The following is a summary of the changes in Incurred But Not Paid (IBNP) for the year ended June 30, 2009:

	Balance at July 1, 2008	Additions	Deletions	Balance at June 30, 2009	Due within One Year	Due in More Than One Year
Inccured but not paid (IBNP)	$ 103,154	$ -	$ (9,963)	$ 93,191	$ -	$ 93,191

10. JOINT VENTURES (JOINT POWERS AGREEMENT)

The District participates in a joint powers agreement (JPA) entity called the Statewide Association of Community Colleges (SWACC). The relationship between the District and the JPA is such that the JPA is not a component unit of the District. The JPA is governed by a board consisting of a representative from each member district.

SWACC provides liability and property insurance for approximately nineteen community colleges. SWACC is governed by a board comprised of a member of each of the participating districts. The board controls the operation of SWACC, including the selection of management and approval of board members beyond their representation on the board. Each member shares in the surpluses and deficits proportionally to its participation in SWACC.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. The District's share of year-end assets, liabilities or fund equity has not been calculated. The most recently available audited financial statements are as follows:

	June 30, 2008
Assets	$ 39,034,338
Liabilities	$ 19,175,367
Net Assets	$ 19,858,971
Operating revenues	$ 8,395,789
Operating expenses	$ 8,769,388
Nonoperating revenues	$ 2,344,330
Change in net assets	$ 1,970,731

11. COMMITMENTS AND CONTINGENCIES

Litigation

The District is periodically involved in various litigations. In the opinion of management and legal counsel, the
Disposition of all litigation pending will not have a material effect on the District's financial statements.

Sick Leave

Sick leave accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees, therefore, are never paid for any sick leave balance at termination of employment or any other time. It is, therefore, not appropriate to accrue the value of accumulated sick leave.

11. COMMITMENTS AND CONTINGENCIES, Continued

State and Federal Allowances, Awards and Grants

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

12. PRIOR PERIOD ADJUSTMENTS

On July 1, 2008, the District recorded the following prior period adjustments:

District-Wide Financial Statements

Description	Amount
To adjust long-term debt balance to match County's records	$ 4,753,377
To record miscellaneous adjustments in the General Fund	317,763
Total prior period adjustment	$ 5,071,140

Accordingly, the net assets as of July 1, 2008, have been restated as follows:

	Net Assets as Previously Reported	Prior Period Adjustments	Net Assets as Restated
Net assets	$ 59,518,972	$ 5,071,140	$ 64,590,112

Fund Financial Statements

On July 1, 2008, the District recorded the following prior period adjustments:

	Fund Balances / Net Assets as Previously Reported	Prior Period Adjustments	Fund Balances / Net Assets, as restated
Governmental Fund Type:			
General Fund	$ 11,014,120	$ (1,443,808)	$ 9,570,312
Total governmental fund balances	$ 11,014,120	$ (1,443,808)	$ 9,570,312

General Fund:	Amount
Fund balance as previously reported	$ 11,014,120
Adjustments:	
To adjust for compensated absences reported in General Fund	(1,443,808)
Net adjustments	(1,443,808)
Fund balance as restated	$ 9,570,312

13. SUBSEQUENT EVENTS

Issuance of Election of 2008 General Obligation Bonds, Series A and B

On October 22, 2009, as authorized by the registered voters of the Southwestern Community College District in the election of November 4, 2008, the District issued $10,225,000 of Election of 2008 General Obligation Bonds, Series A, and $89,775,000 of Election of 2008 General Obligation Bonds, Series B bonds. The bonds are being issued to finance the repair, construction, acquisition and equipping of certain District sites and facilities and to pay costs of issuance with the bonds.

The bonds are general obligations of the District payable solely from *ad valorem* property taxes. The Board of Supervisors of San Diego County is empowered and is obligated to levy *ad valorem* taxes for the payment of interest on and principal of the bonds when due.

The Series B bonds will be issued as "Build America Bonds" for purposes of the American Recovery and Reinvestment Act of 2009 ("Recovery Act"). Pursuant to the Recovery Act, the District expects to receive a cash subsidy payment from the United States Treasury equal to 35% of the interest payable on the Series B bonds on or about each interest payment date. The cash payment does not constitute the full faith and credit of the United States, but is required to be paid by the Treasury under the Recovery Act.

State of California Budget Shortfall

The State of California has experienced a significant budget and financial shortfall. Subsequent to the financial statement date of June 30, 2009, the State has decided to borrow, to defer certain revenue payments and to take certain funds from local governments including the District. Passage of Assembly Bills 3X-37 implements a number of funding deferrals to various government sectors including the California Community Colleges. For the Community College Districts, the total deferrals will be over $1 billion. Of this amount, $703 million is deferred within the fiscal year 2009-2010. Another $300 million is deferred within the fiscal year 2010-2011. These deferrals are assumed to be permanent. The deferral impact for the District is approximately $8,266,000. This amount is significant to the District. Management has performed its cash flow analysis and believes that there are no liquidity issues resulting from this action for the fiscal year ending June 30, 2010.

REQUIRED SUPPLEMENTARY INFORMATION

1. SCHEDULE OF FUNDING PROGRESS FOR DEFINED BENEFITS PLANS

California State Teachers' Retirement System (CalSTRS)

The District's CalSTRS retirement plan is part of the State Pool, a cost-sharing multiple-employer contributory public employee retirement system defined benefit pension plan. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required as information is not specific to the District.

California Public Employees' Retirement System (CalPERS)

The District's CalSTRS retirement plan is part of the County of San Diego Pool, a cost-sharing multiple-employer contributory public employee retirement system defined benefit pension plan. As part of a cost-sharing multiple-employer defined benefit plan, disclosure of the schedule of funding progress is not required as information is not specific to the District.

Other Post Employment Benefits (OPEB)

A schedule of funding progress for the year ended June 30, 2009 including the actuarial valuations is presented below.

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liabilities	Overfunded (Unfunded) Actuarial Accrued Liabilities	Funded Ratio	Covered Payroll	Overfunded (Unfunded) Actuarial Liabilities as Percentage of Covered Payroll
12/1/2005	$ -	$ 10,778,362	$ (10,778,362)	0.00%	$ 3,434,028	-313.87%
8/1/2009	1,389,717	9,672,114	(8,282,397)	14.37%	3,872,045	-213.90%

SUPPLEMENTAL INFORMATION

Southwestern Community College District
Combining Balance Sheet
June 30, 2009

	General Fund	Prop AA Fund	Student Center	Capital Outlay	Bookstore
ASSETS					
Current assets:					
Cash and investments	$ 15,768,107	$ 13,879,781	$ 219,412	$ 1,714,806	$ 1,069,157
Accounts receivable	11,722,072	51,148	799	388,024	273,171
Student loans receivable	-	-	-	-	-
Inventories	104,089	-	-	-	1,318,088
Prepaid items	1,145	-	-	-	3,831
Due from other funds	648,867	-	-	16,819	31,538
Restricted cash and investments	-	-	-	-	-
Total current assets	28,244,280	13,930,929	220,211	2,119,649	2,695,785
Noncurrent assets:					
Capital assets, net	-	-	-	-	234,153
Total noncurrent assets	-	-	-	-	234,153
Total assets	$ 28,244,280	$ 13,930,929	$ 220,211	$ 2,119,649	$ 2,929,938
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable and accrued liabilities	$ 1,294,152	$ 110,589	$ -	$ 13,632	$ 159,350
Payroll and related liabilities	3,730,377	-	-	-	-
Compensated absences	2,248,647	-	-	-	-
Deferred revenue	7,360,696	-	-	-	-
Due to other funds	298,692	9,745	6,731	600	77,034
Deposits payable	-	-	-	-	-
Total liabilities	14,932,564	120,334	6,731	14,232	236,384
Fund Balances	13,311,716	13,810,595	213,480	2,105,417	2,693,554
Total liabilities and fund balances	$ 28,244,280	$ 13,930,929	$ 220,211	$ 2,119,649	$ 2,929,938

Cafeteria	ASO Student Clubs	Federal Financial Aid	Student Service Trust Funds	Bond Interest and Redemption Fund	Self Insurance	Total
$ 169,774	$ 625,896	$ 201,519	$ 492,726	$ -	$ 129,660	$ 34,270,838
80,155	46,490	27,431	9,861	-	134	12,599,285
-	-	-	-	-	-	-
42,004	-	-	-	-	-	1,464,181
-	-	-	-	-	-	4,976
335	-	-	-	-	250,000	947,559
-	-	-	-	6,070,375	-	6,070,375
292,268	672,386	228,950	502,587	6,070,375	379,794	55,357,214
103,863	43,983	-	-	-	-	381,999
103,863	43,983	-	-	-	-	381,999
$ 396,131	$ 716,369	$ 228,950	$ 502,587	$ 6,070,375	$ 379,794	$ 55,739,213

$ 64,922	$ 27,356	$ 776	$ 493,904	$ -	$ -	$ 2,164,681
-	-	-	-	-	-	3,730,377
-	-	-	-	-	-	2,248,647
-	-	-	-	-	-	7,360,696
554,757	-	-	-	-	-	947,559
-	10,262	-	-	-	-	10,262
619,679	37,618	776	493,904	-	-	16,462,222
(223,548)	678,751	228,174	8,683	6,070,375	379,794	39,276,991
$ 396,131	$ 716,369	$ 228,950	$ 502,587	$ 6,070,375	$ 379,794	$ 55,739,213

Southwestern Community College District
Reconciliation of Combining Balance Sheet to Government-Wide Statement of Net Assets
June 30, 2009

Total Fund Balances reported in the Combining Balance Sheet	$ 39,276,991
Amounts reported in the Statement of Net Assets are differently because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	
Government-Wide capital assets	116,978,668
Less enterprise funds capital assets	(338,016)
Total capital assets not reported in the funds	116,640,652
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.	
Insurance claims payable	(93,191)
Retirement plans payable - due within one year	(160,000)
Retirement plans payable - due in more than one year	(629,797)
Long-term liabilities - due within one year	(2,666,941)
Long-term liabilities - due in more than one year	(86,294,366)
Total long-term liabilities not reported in the funds	(89,844,295)
Student activities are fiduciary activities and therefore are not reported in the Government-Wide Statement of Net Assets.	
Associated Student Trust	(678,751)
Academic Affairs	(8,683)
Total fiduciary activities	(687,434)
Net assets	$ 65,385,914

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Southwestern Community College District
Combining Schedule of Revenues, Expenditures (Expenses) and Changes in Fund Equity (Net Assets)
For the year ended June 30, 2009

	General Fund	Prop AA Fund	Student Center	Capital Outlay	Bookstore
OPERATING REVENUES:					
Tuition and fees	$ 6,622,151	$ -	$ -	$ -	$ -
Federal grant, non-capital	3,310,271	-	-	-	-
State grant, non-capital	128,257	-	-	662,190	-
Local grant, non-capital	1,980,706	-	-	546,609	-
Auxiliary enterprise sales and charges	-	-	-	-	4,384,337
Other operating revenues	-	16,822	163,311	-	76,176
Total operating revenues	12,041,385	16,822	163,311	1,208,799	4,460,513
OPERATING EXPENDITURES/EXPENSES:					
Salaries	65,533,164	131,221	-	1,879	686,536
Employee benefits	14,078,946	22,288	-	190	154,113
Payments to students	833,826	-	-	-	-
Supplies, materials, and other expenses	10,644,048	273,341	856	245,132	3,524,952
Utilities	2,228,257	-	-		2,453
Depreciation	-	-	-	-	56,669
Total operating expenditures/expenses	93,318,241	426,850	856	247,201	4,424,723
OPERATING REVENUES OVER (UNDER) EXPENDITURES/EXPENSES	(81,276,856)	(410,028)	162,455	961,598	35,790
NONOPERATING REVENUE/(EXPENSES):					
State apportionments, non-capital	62,891,624	-	-	-	-
Local property taxes, non-capital	19,433,829	-	-	-	-
State taxes and other revenues	-	-	-	-	-
Investment income	379,333	404,963	5,747	31,370	-
Other non-operating revenue	628,907	-	-	-	-
Grants and gifts	9,567	-	-	-	-
Debt service:					
Principal payment	-	-	(70,000)	-	-
Interest and fiscal charges	-	-	-	-	-
Capital outlay	-	(6,546,769)	(193,117)	(624,567)	-
Total non-operating expenditures/expenses	83,343,260	(6,141,806)	(257,370)	(593,197)	-
NET INCOME/LOSS BEFORE TRANSFERS	2,066,404	(6,551,834)	(94,915)	368,401	35,790
TRANSFERS:					
Transfers in	1,675,000	-	-	-	-
Transfers out	-	-	-	(1,000,000)	(175,000)
Transfers	1,675,000	-	-	(1,000,000)	(175,000)
Net changes in fund balance/net assets	3,741,404	(6,551,834)	(94,915)	(631,599)	(139,210)
FUND EQUITY/NET ASSETS:					
Beginning of year, as restated	9,570,312	20,362,429	308,395	2,737,016	2,832,764
End of year	$ 13,311,716	$ 13,810,595	$ 213,480	$ 2,105,417	$ 2,693,554

Cafeteria	ASO Student Clubs	Federal Financial Aid	Student Service Trust Funds	Bond Interest and Redemption Fund	Self Insurance	Total
$ -	$ 398,460	$ -	$ -	$ -	$ -	$ 7,020,611
-	-	14,382,202	-	-	-	17,692,473
-	-	1,578,697	-	-	-	2,369,144
-	-	-	-	-	100,000	2,627,315
1,529,494	-	-	-	-	-	5,913,831
93,380	-	-	-	-	-	349,689
1,622,874	398,460	15,960,899	-	-	100,000	35,973,063
717,373	101,514	-	-	-	-	67,171,687
211,037	-	-	-	-	273,350	14,739,924
-	18,000	15,897,511	-	-	-	16,749,337
876,854	261,805	-	10,092	-	3,555	15,840,635
-	-	-	-	-	-	2,230,710
10,616	-	-	-	-	-	67,285
1,815,880	381,319	15,897,511	10,092	-	276,905	116,799,578
(193,006)	17,141	63,388	(10,092)	-	(176,905)	(80,826,515)
-	-	-	-	-	-	62,891,624
-	-	-	-	6,272,884	-	25,706,713
-	-	-	-	65,004	-	65,004
-	-	-	7,145	208,983	8,742	1,046,283
-	-	-	-	-	-	628,907
-	-	-	-	-	-	9,567
-	-	-	-	(2,203,618)	-	(2,273,618)
-	-	-	-	(4,005,595)	-	(4,005,595)
-	-	-	-	-	-	(7,364,453)
-	-	-	7,145	337,658	8,742	76,704,432
(193,006)	17,141	63,388	(2,947)	337,658	(168,163)	(4,122,083)
-	30,000	-	-	-	-	1,705,000
(30,000)	-	-	-	-	(500,000)	(1,705,000)
(30,000)	30,000	-	-	-	(500,000)	-
(223,006)	47,141	63,388	(2,947)	337,658	(668,163)	(4,122,083)
(542)	631,610	164,786	11,630	5,732,717	1,047,957	43,399,074
$ (223,548)	$ 678,751	$ 228,174	$ 8,683	$ 6,070,375	$ 379,794	$ 39,276,991

Southwestern Community College District

Reconciliation of Combining Schedule of Revenues, Expenditures (Expenses) and Changes in Fund Equity to Government-Wide Statement of Revenues, Expenses and Changes in Net Assets

For the year ended June 30, 2009

Revenues and other financing sources over (under) expenditures/expenses and other financing uses	$	(4,122,083)
Amounts reported in the Statement of Activities were different because:		
Governmental funds reported capital outlay as expenditures. Capital outlay expenditures were included in the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		7,364,453
Capital outlay expenditures reported in the governmental funds that were not capitalized on the Government-Wide Statement of Net Assets were reclassified as Supplies, Materials, and Other Expenses.		(106,156)
Disposal of capital assets provided current financial resources to governmental funds, but disposal of capital assets decreased capital assets in the Government-Wide Statement of Net Assets.		(1,347,819)
Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation was not reported as an expenditure in governmental funds.		(3,370,004)
Repayment of long-term liabilities was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets:		
Retirement plan payable		160,152
Insurance claims payable		9,963
Lease revenue bonds		70,000
General Obligation bonds		2,203,618
Total repayment of long-term liabilities		2,443,733
Amortization expense on deferred charges are reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, amortization is not reported as an expenditure in governmental funds.		(295,635)
Student activities are fiduciary activities and therefore are not reported in the government-wide statement of activities.		
Associated Student Trust		(47,141)
Academic Affairs		2,947
Total fiduciary activities		(44,194)
Change in Net Assets	$	1,113,565

SINGLE AUDIT

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

To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California

We have audited the basic financial statements of the Southwestern Community College District (District) as of and for the year ended June 30, 2009, and have issued our report thereon dated December 21, 2009. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies and are reported in a separate letter dated December 21, 2009.

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To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, 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 or other matters that are required to be reported under *Government Auditing Standards.*

This report is intended solely for the information and use of the management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson

San Diego, California
December 21, 2009

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND OTHER MATTERS WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California

Compliance and Other Matters

We have audited the compliance of the Southwestern Community College District (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, 2009. The District's major federal programs are identified in the summary of the auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards in the United States; 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, Audit 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California

A *control deficiency* in the District's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the District as of and for the year ended June 30, 2009, and have issued our report thereon dated December 21, 2009. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as whole.

This report is intended solely for the information and use of the management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson

San Diego, California
December 21, 2009

Southwestern Community College District
Schedule of Expenditures of Federal Awards
For the year ended June 30, 2009

Federal Agency	Grant Name/Program Name	CFDA No.	Agency or Pass-Through No.	Expenditure
U.S. Department of Education:				
Direct Programs:				
	Financial Aid Cluster:			
	PELL	84.063		$ 13,485,712
	SEOG	84.007		293,330
	Federal Work Study	84.033		388,570
		Sub-total financial aid cluster		14,167,612
	USDE Title III Grant	84.031		230
	VATEA	84.048		751,340
	Business & International Education Progam	84.153		750,582
	Tech-Prep Education	84.243		74,957
	Child Care Access	84.335		59,000
Passed through Sweetwater Union High School District:				
	Gear-Up	84.334		283,874
		Total U.S. Department of Education		16,087,595
U.S. Department of Defense:				
Direct Programs:				
	Procurement Technical Assistance for Business Firms - Defense Logistics	12.002		265,931
	National Guard Military Operations & Maintenance Proj.	12.401		54,515
		Total U.S. Department of Defense		320,446
U.S. Department of Housing and Urban Development:				
Direct Programs:				
	Hispanic-Servicing Institutions Assisting Communities	14.514		202,275
		Total U.S. Department of Housing and Urban Development		202,275
U.S. Department of Labor:				
Direct Programs:				
	Job Tarining Partnership Act	17.250		32
		Total U.S. Department of Labor		32
U.S. Department of Energy:				
Direct Programs:				
	Science and Industry Training	81.116		378,911
		Total U.S. Department of Energy		378,911
Corporation for National & Community Services:				
Direct Programs:				
	AmeriCorps	94.006		65,644
		Total Corporation for National & Community Services		65,644
		Total expenditures of federal awards		**$ 17,054,903**

1. REPORTING ENTITY

The financial reporting entity consists of the primary government, Southwestern Community College District (District), (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

2. SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations.* Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Southwestern Community College District
Schedule of Findings and Questioned Costs
For the year ended June 30, 2009

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the basic financial statements of the Southwestern Community College District (District).
2. Significant deficiencies relating to the audit of the financial statements are reported in a separate letter dated December 21, 2009.
3. No instances of noncompliance material to the financial statements of the District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs is reported in the financial statements.
5. The auditors' report on compliance for the major federal award programs for the District expresses an unqualified opinion.
6. Audit findings relative to the major federal award programs for the District are reported in Part C of this Schedule.
7. The programs tested as major programs include:

Major Program	Expenditures
Financial Aid Cluster	$ 14,167,612
Procurement Technical Assistance for Business Firms - Defense Logistics	265,931
Gear-Up	283,874
Total Major Program Expenditures	$ 14,717,417
Total Federal Award Expenditures	$ 17,054,903
Percent of Total Federal Award Expenditures	86.29%

8. The threshold for distinguishing Types A and B programs was $511,647.
9. The Southwestern Community College District was determined to be a high risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

Certain deficiencies in internal control over financial reporting that are considered to be significant deficiencies were noted and are reported in a separate letter dated December 21, 2009.

C. CURRENT YEAR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

No findings or questioned costs were noted on the District's major programs for the year ended June 30, 2009.

D. PRIOR YEAR FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

No findings or questioned costs were noted on the District's major programs for the year ended June 30, 2008.

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STATE COMPLIANCE

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California

We have audited the basic financial statements of the Southwestern Community College District (District) for the year ended June 30, 2009 and have issued our report thereon dated December 21, 2009. Our audit was made in accordance with generally accepted auditing standards in 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, we also performed an audit for compliance as required in Part II, State and Federal Compliance Requirements for those programs identified in the State Department of Finance's March 1991 (with revisions through July 2003) transmittal of audit requirements for community colleges. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

GENERAL DIRECTIVES

State General Apportionment

The District maintains a separate and complete tabulation for each course section reported for state attendance support.

ADMINISTRATION

Salaries of Classroom Instructors (Fifty Percent Law)

The District's salaries of classroom instructors equaled or exceeded fifty percent of the District's current expense of education (CEE) in accordance with §84362 of the Education Code.

GANN Limit Calculation

The District met the requirements of the GANN Amendment which establishes maximum appropriation limits for public agencies.

Residency Determination for Credit Courses

The District claimed only the attendance of California residents for state support of credit courses.

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To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California

Students Actively Enrolled

The District claimed only the attendance of students actively enrolled in a course section as of the census date for apportionment.

Concurrent Enrollment of K-12 Students in Community College Credit Courses

The District did not claim FTES for the attendance of K-12 pupils who took courses offered by the District, except as allowed under applicable provisions of the California Education Code and Title 5 of the California Code of Regulations.

Apportionment for Instructional Service Agreements/Contracts

The District did not claim apportionment for classes given through instructional service agreements, except as allowed by the California Community Colleges Chancellor's Office and the California Department of Finance.

Enrollment Fee

The District reported the total amount the students should have paid for enrollment fees for purposes of determining each district's share of apportionments annually.

Open Enrollment

The District complied with the Title 5 provisions of the California Code of Regulations related to open enrollment by the general public for all courses being submitted for state apportionment funding.

Student Fees

The District charges mandatory fees based on express statutory authority in accordance with §*70902*, §*76355, and* §*76365* of the Education Code. During the year 2008-2009, no non-mandatory fees were charged.

STUDENT SERVICES

Uses of Matriculation Funds

The District's expenditures for Matriculation were made in accordance with the Matriculation Plan. Additionally, the District met state matching requirements and has augmented services in existence during the 1986-87 base years.

California Work Opportunity and Responsibility to Kids (CalWORKs)

The District expended CalWORKs Program funds to provide specialized student support services, curriculum development, and instruction to eligible CalWORKs students.

To the Board of Trustees
of the Southwestern Community College District
Chula Vista, California

EDUCATIONAL SERVICES FACILITIES

Scheduled Maintenance Program

The District used funds provided by the State to supplement, not supplant, district deferred maintenance funds, defined as the amount spent in fiscal year 1995-96 for Operation and Maintenance of Plant increased by an amount equal to the State's contribution and the District's match for the Scheduled Maintenance Program for fiscal year 2008-09.

Our audit of compliance made for the purposes set forth in the preceding paragraph of this report above would not necessarily disclose all instances of noncompliance.

In our opinion, the District complied with the compliance requirements for the state programs listed and tested above, except as noted in the Schedule of Findings and Questioned Costs section of this report. Further, nothing came to our attention as a result of the aforementioned procedures to indicate that the District had not complied with the terms and conditions of state assisted educational programs not selected for testing.

This report is intended solely for the information and use of the District's management, the Board of Trustees, and others within the District, the California Community Colleges Chancellor's Office, the California Department of Finance, the California Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson

San Diego, California
December 21, 2009

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OTHER SUPPLEMENTARY INFORMATION

PURPOSE OF SCHEDULES

Schedule of Workload Measures for Program-Based Funding

Full-time Equivalent Students (FTES) is a measurement of the number of pupils attending classes of the District on a full-time basis. 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 throughout the District.

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 Form CCFS-311 to the audited financial statements.

Southwestern Community College District
Schedule of Workload Measures for State General Apportionment
Annual Actual Attendance
June 30, 2009

	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2008 only)			
1. Noncredit	19	-	19
2. Credit	297	-	297
B. Summer Intersession (Summer 2009 - Prior to July 1, 2009)			
1. Noncredit	-	-	-
2. Credit	994	-	994
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Weekly Census Contact Hours	11,325	-	11,325
(b) Daily Census Contact Hours	1,333	-	1,333
2. Actual Hours of Attendance Procedure Courses			
(a) Noncredit	788	-	788
(b) Credit	642	-	642
3. Independent Study/Work Experience			
(a) Weekly Census Contact Hours	370	-	370
(b) Daily Census Contact Hours	658	-	658
(c) Noncredit Independent Study/Distance Education Courses	-	-	-
D. Total FTES	16,426	-	16,426
Supplemental Information (subset of above information)			
E. In-Service Training Courses (FTES)	67	-	67
H. Basic Skills courses and Immigrant Education			
(a) Noncredit	32	-	32
(b) Credit	1,853	-	1,853
CCFS-320 Addendum			
CDCP Noncredit FTES	-	-	-
Centers FTES			
(a) Noncredit	-	-	-
(b) Credit	-	-	-

Southwestern Community College District
Reconciliation of Annual Financial and Budget Report (CCFS-311) with Audited Financial Statements
For the year ended June 30, 2009

These fund financial statement balances are prior to various eliminations and reclassifications necessary to convert to the presentation of the financial statements as identified in the accompanying table of contents.

	General Fund	Prop AA Fund	Student Center	Capital Outlay
Fund balance per the CCFS-311 at June 30, 2009	$ 13,467,393	$ 13,810,595	$ 213,481	$ 2,105,417
Miscellaneous adjustments and reclassifications	(155,677)	-	(1)	-
Net adjustments and reclassifications	(155,677)	-	(1)	-
Fund balance per the audited fund financial statements at June 30, 2009	$ 13,311,716	$ 13,810,595	$ 213,480	$ 2,105,417

Bookstore	Cafeteria	ASO Student Clubs	Federal Financial Aid	Student Service Trust Funds	Bond Interest and Redemption Fund	Self Insurance
$ 2,693,554	$ (223,548)	$ 678,751	$ 228,174	$ 8,683	$ 6,070,374	$ 379,794
-	-	-	-	-	1	-
-	-	-	-	-	1	-
$ 2,693,554	$ (223,548)	$ 678,751	$ 228,174	$ 8,683	$ 6,070,375	$ 379,794

Southwestern Community College District
Budget Comparison Schedule - General Fund
For the year ended June 30, 2009

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Federal	$ 5,182,056	$ 3,310,271	$ (1,871,785)
State	62,647,709	63,019,881	372,172
Local	30,356,158	29,054,493	(1,301,665)
Total revenues	98,185,923	95,384,645	(2,801,278)
EXPENDITURES:			
Salaries	68,586,954	65,533,164	3,053,790
Employee benefits	14,664,376	14,078,946	585,430
Payments to students	1,176,843	833,826	343,017
Supplies, materials, and other expenses	17,180,669	10,644,048	6,536,621
Utilities	3,096,390	2,228,257	868,133
Total expenditures	104,705,232	93,318,241	11,386,991
REVENUES OVER (UNDER) EXPENDITURES	(6,519,309)	2,066,404	8,585,713
OTHER FINANCING SOURCES (USES):			
Transfers in	3,425,000	1,675,000	(1,750,000)
Transfers out	-	-	-
Total other financing sources (uses)	3,425,000	1,675,000	(1,750,000)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	$ (3,094,309)	3,741,404	$ 6,835,713
FUND EQUITY:			
Beginning of year, as restated		9,570,312	
End of year		$ 13,311,716	

APPENDIX G

GENERAL ECONOMIC AND DEMOGRAPHIC INFORMATION FOR SAN DIEGO COUNTY

The Districts are all located in San Diego County (the "County"). The following economic data for the County is presented for information purposes only. The Bonds are not a debt or obligation of the County

Introduction

The County of San Diego is the southernmost major metropolitan area in the State of California. The County covers 4,255 square miles, extending 70 miles along the Pacific Coast from the Mexican border to Orange County, and inland 75 miles to Imperial County. Riverside and Orange Counties form the northern boundary.

The County possesses a diverse economic base consisting of a significant manufacturing presence in the fields of electronics and shipbuilding, a large tourist industry attracted by the favorable climate of the region, emerging biotech and software development industries and a considerable defense-related presence which contributes approximately $10 billion into the retail and service businesses of the area.

In addition to the City of San Diego, other principal cities in the County include Carlsbad, Chula Vista, Oceanside, El Cajon, Escondido, La Mesa, National City and Santee. Most County residents live within 20 miles of the coast. Farther inland are agricultural areas, while the easternmost portion of the County has both fertile high desert and a dry, desert-like topography.

County Government

The County was incorporated on February 18, 1850 and functions under a charter adopted in 1933, as subsequently amended from time to time. The County is governed by a five-member Board of Supervisors elected to four-year terms in district nonpartisan elections. The Board of Supervisors appoints the Chief Administrative Officer and the County Counsel. Elected officials include the Assessor/County Clerk/Recorder, District Attorney, Sheriff and Treasurer/Tax Collector.

Population

The County has experienced rapid growth and development in the past decade. It has become the nineteenth most populous metropolitan area in the United States. The City of San Diego is the sixth most populous city in the United States. Total population for the County is expected to be over 3.63 million by the year 2015.

The County's population in 2010 was 3,224,432 persons. The County's 2010 population was approximately 12.6% greater than the 2001 population, representing an average annual compound growth rate of 1.32%.

A summary of the population estimates of the County and State for the past ten years is shown in the following table.

COUNTY OF SAN DIEGO
AND STATE OF CALIFORNIA
Population
2001-2010

Year [(1)]	County of San Diego	Annual Growth	State of California	Annual Growth
2001	2,864,462	--	34,430,970	--
2002	2,920,566	1.96%	35,063,959	5.46%
2003	2,971,494	1.74	35,652,700	4.93
2004	3,010,023	1.30	36,199,342	5.46
2005	3,039,424	0.98	36,676,931	8.40
2006	3,065,312	0.85	37,087,005	5.32
2007	3,096,975	1.03	37,463,609	3.83
2008	3,141,700	1.44	37,871,509	3.55
2009	3,185,462	1.39	38,255,508	0.94
2010	3,224,432	1.22	38,648,090	1.11

(1) As of January 1, for years 2001-2010 with 2000 DRU Benchmark.
Source: State Department of Finance.

Income

"Effective Buying Income," also referred to as "disposable" or "after-tax" income, consists of personal income less personal tax and certain non-tax payments. Personal income includes wages and salaries, other labor-related income (such as employer contributions to private pension funds), and certain other income (e.g., proprietor's income; rental income; dividends and interest; pensions; and welfare assistance). Deducted from this total are personal taxes (federal, state and local), certain non-tax payments (e.g., fines, fees and penalties), and personal contributions to a retirement program.

The following table shows the median household Effective Buying Income for the County, the State of California and the United States between calendar years 2004 and 2008.

MEDIAN HOUSEHOLD EFFECTIVE BUYING INCOME
Calendar Years 2004 through 2008

Year	Area	Total Effective Buying Income (000's Omitted)	Median Household Effective Buying Income
2004	San Diego County	$60,578,879	$44,506
	California	705,108,410	43,915
	United States	5,692,909,567	39,324
2005	San Diego County	$61,891,933	$45,571
	California	720,798,106	44,681
	United States	5,894,663,364	40,529
2006	San Diego County	$66,110,993	$47,368
	California	764,120,963	46,275
	United States	6,107,092,244	41,255
2007	San Diego County	$71,339,303	$50,024
	California	814,894,438	48,203
	United States	6,300,794,040	41,792
2008	San Diego County	$72,630,155	$50,383
	California	832,531,445	48,952
	United States	6,443,994,426	42,303

Source: Sales & Marketing Management Magazine "Survey of Buying Power" for year 2004.
Claritas Demographics for years 2005 through 2008.

Retail Trade

The following table shows a five-year history of taxable sales for the County.

COUNTY OF SAN DIEGO
Taxable Sales
2004-2008
(Dollars in Thousands)

	2004	2005	2006	2007[1]	2008[1]
Apparel Stores Group	$1,644,428	$1,798,104	$1,909,011	$2,034,512	$2,205,568
General Merchandise Group	5,204,962	5,406,091	5,594,621	5,673,538	5,305,252
Specialty Stores Group	4,541,225	4,728,028	4,926,656	n/a	n/a
Food Stores Group	1,736,610	1,858,152	1,928,274	1,994,237	1,868,466
Eating & Drinking Group	4,047,726	4,267,302	4,521,392	4,784,500	4,869,497
Household Group	1,549,482	1,566,046	1,511,389	1,420,933	1,590,329
Building Material Group	3,341,105	3,376,009	3,331,161	2,768,385	2,183,006
Automotive Group	9,318,277	9,739,136	9,819,932	6,321,987	5,010,084
Service Stations	n/a	n/a	n/a	3,755,121	4,154,465
All Other Retail Stores Group	961,645	1,045,927	1,076,631	5,285,332	4,529,006
Total Retail Stores	$32,345,460	$33,784,795	$34,619,067	$34,038,545	$31,715,672
Business and Personal Services	2,146,781	2,239,304	2,302,057	2,298,265	2,255,309
All Other Outlets	9,978,097	10,655,372	10,914,390	11,149,178	11,358,155
Total All Outlets	$44,470,338	$46,679,471	$47,835,514	$47,485,988	$45,329,136

(1) The Board of Equalization changed its coding process in 2007. Data from 2007 is not strictly comparable with data from 2006 or before.

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

Industry and Employment

With respect to the County, the State of California and the United States, the following table summarizes the civilian labor force, employment, unemployment and unemployment rate for the years 2005 through 2009.

COUNTY OF SAN DIEGO,
STATE OF CALIFORNIA AND THE UNITED STATES
Labor Force, Employment, Unemployment and Unemployment Rate
2005-2009

Year and Area	Labor Force	Employment	Unemployment	Unemployment Rate[1]
2005				
San Diego County	1,492,600	1,427,900	64,700	4.3
California	17,544,800	16,592,200	952,600	5.4
United States	149,320,000	141,730,000	7,591,000	5.1
2006				
San Diego County	1,504,800	1,445,100	59,600	4.0
California	17,718,500	16,851,600	866,900	4.9
United States	151,248,000	144,427,000	7,001,000	4.6
2007				
San Diego County	1,524,500	1,455,400	69,100	4.5
California	17,970,800	17,011,000	959,800	5.3
United States	153,124,000	146,047,000	7,078,000	4.6
2008				
San Diego County	1,555,100	1,462,300	92,900	6.0
California	18,251,600	16,938,300	1,313,200	7.2
United States	154,287,000	145,362,000	8,924,000	5.8
2009				
San Diego County	1,557,400	1,406,100	151,300	9.7
California	18,250,200	16,163,900	2,086,200	11.4
United States	154,142,000	139,877,000	14,265,000	9.3

(1) Unemployment rate is based on unrounded data. March 2009 benchmark; data is not seasonally adjusted.
Source: California State Employment Development Department.

The Districts are located within the San Diego-Carlsbad-San Marcos Metropolitan Statistical Area (the "MSA"). The following table shows the annual average industry employment for the MSA between 2005 and 2009.

SAN DIEGO-CARLSBAD-SAN MARCOS METROPOLITAN STATISTICAL AREA
Annual Average Industry Employment
2005-2009

	2005	2006	2007	2008	2009
Agriculture	10,700	10,900	10,900	10,500	9,700
Natural Resources & Mining	400	500	400	400	400
Construction	90,800	92,700	87,000	76,100	61,100
Manufacturing	104,500	103,900	102,500	102,800	95,400
Trade, Transportation & Utilities	219,400	222,000	222,300	215,900	198,300
Wholesale Trade	43,600	45,100	45,500	44,900	40,700
Retail Trade	147,400	148,300	148,100	142,000	130,500
Transportation, Warehousing & Utilities	28,400	28,700	28,800	29,000	27,100
Information	37,400	37,300	37,600	38,500	37,000
Financial Activities	83,200	83,700	80,300	75,200	70,300
Professional & Business Services	210,400	213,600	216,800	215,100	197,300
Educational & Health Services	122,500	125,100	129,500	137,300	143,000
Leisure & Hospitality	149,600	156,500	161,800	164,000	155,200
Other Services	48,800	48,400	48,300	48,400	47,000
Government	215,100	217,900	222,400	225,100	224,700
Total Labor Force	1,292,800	1,312,500	1,319,700	1,309,300	1,239,300

Note: Totals may not add due to independent rounding.
Source: California Employment Development Department; March 2009 benchmark.

Major Employers

The County is host to a diverse mix of major employers representing industries ranging from education and health services, to diversified manufacturing, financial services, retail trade, amusement and recreation. The following table lists the major employers in the County in 2009.

SAN DIEGO COUNTY
Largest Employers
2009

Rank	Employer	Type of Business	Number of Local Employees
1.	Federal Government	Federal administration	43,500
2.	State of California	State administration	40,900
3.	University of California, San Diego	Education	26,000
4.	County of San Diego	County administration	20,500
5.	United States Navy, San Diego	Military/Defense	26,000(1)
6.	City of San Diego	City government	19,500
7.	San Diego Unified School District	Education	15,881
8.	Sharp HealthCare	Health Care	14,390
9.	Scripps Health	Hospital	12,700
10.	Scripps Mercy Hospital	Hospital	11,000
11.	Qualcomm Inc.	Technology/communications	9,444
12.	Kaiser Foundation Hospital	Health care	7,608
13.	San Diego State University	Education	6,939
14.	United States Postal Service	Mail delivery	6,854
15.	AT&T Inc.	Telecommunications	5,800
16.	Sempra Energy	Energy	5,092
17.	San Diego Community College District	Education	4,950
18.	General Dynamics NASSCO	Defense Contractor	4,700
19.	National Steel & Shipbuilding Co. (NASSCO)	Shipbuilding/Construction	4,600
20.	Grossmont Union High School District	Education	4,490
21.	YMCA of San Diego County	Health	4,400
22.	SBC Communications Inc.	Telecommunications	4,200
23.	Northrop Grumman	Defense Contractor	4,190
24.	Science Applications International Corp. (SAIC)	Technology	4,158
25.	Rady Children's Hospital	Health care	3,504

(1) Figure includes 20,000 military personnel and 6,000 civilian employees.
Source: The Daily Transcript – Top Influentials Sourcebook 2009.

Construction

Provided below are the building permits and valuations for the County for years 2005 through 2009.

COUNTY OF SAN DIEGO
Building Permits and Valuations
2005 through 2009
(Dollars in Thousands)

	2005	2006	2007	2008	2009
Valuation					
Residential	$3,562,702	$2,470,688	$1,847,307	$1,339,206	$878,701
Non-residential	1,381,792	1,621,610	1,416,633	1,061,840	583,964
Total	$4,944,494	$4,092,298	$3,263,940	$2,401,046	$1,462,665
New Housing Units					
Single Units	7,904	4,753	3,506	2,347	1,786
Multiple Units	7,354	6,024	3,903	2,806	1,204
Total	15,258	10,777	7,409	5,153	2,990

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

Transportation

Excellent surface, sea and air transportation facilities service county residents and businesses. Interstate 5 parallels the coast from Mexico to the Los Angeles area and points north. Interstate 15 runs inland, leading to Riverside-San Bernardino, Las Vegas and Salt Lake City. Interstate 8 runs eastward through the southern United States. Highway 125 runs from South County to Santee connecting with the east-west Highway 52 which runs to Interstate 5 and the University of California at La Jolla.

The regional trolley that begins in downtown San Diego has its terminus in Santee’s town center, after passing through Lemon Grove, La Mesa and El Cajon.

San Diego’s International Airport (Lindbergh Field) is located approximately one mile west of the downtown area at the edge of the San Diego Bay. The facilities are owned and maintained by the San Diego County Regional Airport Authority and are leased to commercial airlines and other tenants. The airport is the third most active commercial airport in California, served by 18 major airlines. A West Terminal was completed in mid-1979, approximately doubling terminal capacity. In addition to San Diego International Airport, there are two naval air stations and seven general aviation airports located in the county.

San Diego is the terminus of the Santa Fe Railway’s main line from Los Angeles. Amtrak passenger service is available at San Diego with stops at Del Mar and Oceanside in the north county. San Diego’s harbor is one of the world’s largest natural harbors. The harbor, a busy commercial port, has also become an extremely popular destination for cruise ships. The Port of San Diego is administered by the San Diego Unified Port District, which includes the cities of San Diego, National City, Chula Vista, Imperial Beach and Coronado.

Research and Development

Research and development activity plays an important role in the area's economy. Construction of a major campus of the University of California at San Diego (UCSD) in 1964 gave significant impetus to this development.

The County is a leading health sciences and biomedical center. Approximately 35,000 persons are engaged in life sciences-related activities in the metropolitan area, with over 28,000 employed directly in health services. In addition to UCSD, other established research institutions in the La Jolla area of the City include the Salk Institute for Biological Studies, the Scripps Clinic and Research Foundation, and the Scripps Institution of Oceanography.

Visitor and Convention Activity

An excellent climate, proximity to Mexico, extensive maritime facilities, and such attractions as the San Diego Zoo and Wild Animal Park, Sea World, Cabrillo National Monument, and Palomar Observatory allow San Diego to attract visitor and convention business each year. The development of the 4,600-acre Mission Bay Park at San Diego and the construction of meeting and convention facilities at the San Diego community concourse, have contributed to the growth in tourism.

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APPENDIX H

SAN DIEGO COUNTY INVESTMENT POOL

The following information concerning the Treasury Pool of San Diego County (the "Treasury Pool") has been provided by the Treasurer and has not been confirmed or verified by the Districts or the Underwriter. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained or incorporated hereby by reference is correct as of any time subsequent to its date.

General

Pursuant to a resolution adopted July 8, 1958, the Board of Supervisors delegated to the Treasurer the authority to invest and reinvest funds of the County. Applicable law limits this delegation of authority to a one-year period and must be renewed annually by action of the Board of Supervisors. In addition to funds of the County (and the various departments in the County), funds of certain local agencies within the County, including school districts in the County, are required under state law to be deposited into the County treasury ("Involuntary Depositors"). In addition, certain agencies, including community college districts, invest certain of their funds in the County treasury on a voluntary basis ("Voluntary Depositors" and together with the Involuntary Depositors, the "Depositors"). Deposits made by the County and the various local agencies are commingled in a pooled investment fund (the "Treasury Pool" or the "Pool"). No particular deposits are segregated for separate investment.

Under State law, Depositors in the Pool are permitted to withdraw funds which they have deposited on 30 days notice. The County does not expect that the Pool will encounter liquidity shortfalls based on its current portfolio and investment guidelines or realize any losses that may be required to be allocated among all Depositors in the Pool.

The County has established an Oversight Committee as required by State law. The members of the Oversight Committee include the Treasurer, the Chief Financial Officer, members of the public, and a representative from a special district and a school district. The role of the Oversight Committee is to review and monitor the Investment Policy that is prepared by the Treasurer.

The Treasury Pool's Portfolio

As of August 31, 2010, the securities in the Treasury Pool had a market value of $4,854,372,911 and a book value of $4,823,641,101, for a net gain of $25,359,234 of the market value of the Treasury Pool from the prior month.

Standard & Poor's Rating Services has rated the Pool's ability to meet its financial commitments "AAAf" (long-term) and "S1" (short term volatility), the highest ratings it gives.

Investments of the Treasury Pool

***Authorized Investments*.** Investments of the Pool are placed in those securities authorized by various sections of the California Government Code, which include obligations of the United States Treasury, agencies of the United States Government, local and State bond issues, bankers acceptances, commercial paper of prime quality, certificates of deposit (both collateralized and negotiable), repurchase and reverse repurchase agreements, medium term corporate notes, shares of beneficial interest in diversified management companies (mutual funds), asset backed (including mortgage related) and pass-through securities. Generally, investments in any repurchase agreement may not exceed a term of one year and the security underlying the agreement shall be valued at 102% or greater of the funds borrowed against the security and the value of the repurchase agreement shall be adjusted no less than quarterly. In addition, reverse repurchase agreements generally may not exceed 20% of the base value of the portfolio and the term of the agreement may not exceed 92 days. Securities lending transactions are considered reverse repurchase agreements for purposes of this limitation. Base Value is deferred as the total cash balance excluding any amounts borrowed (*i.e.*, amounts obtained through selling securities by way of reverse repurchase agreements or other similar borrowing methods).

Legislation which would modify the currently authorized investments and place restrictions on the ability of municipalities to invest in various securities is considered from time to time by the California State Legislature. Therefore, there can be no assurances that the current investments in the Treasury Pool will not vary significantly from the investments described herein.

***The Investment Policy*.** The County's Investment Policy (the "Investment Policy") (which may be modified, amended, or otherwise changed at any time at the sole discretion of the Treasurer) currently states the primary goals of the Treasurer when investing public funds to be as follows: the primary objective is to safeguard the principal of the funds under the Treasurer's control, the secondary objective is to meet the liquidity needs of the Pool Participants, and the third objective is to achieve a return on the funds under the control of the Treasurer within the parameters of prudent risk management. The Investment Policy contains a goal that 50% of the Pool should be invested in securities maturing in one year or less, with the remainder of the portfolio being invested over one to five years depending on opportunities in the market place. With respect to reverse repurchase agreements, the Investment Policy provides for a maximum maturity of 92 days (unless the reverse repurchase agreement includes a written guarantee of a minimum earning or spread for the entire period of such agreement) and a limitation on the total amount of reverse repurchase agreements to 20% of the total investments in the Pool. The Investment Policy states that the purpose of reverse repurchase agreements is to supplement the yield on securities owned by the Pool or to provide funds for the immediate payment of an obligation and that the maturity of the reverse repurchase agreement and the maturity of the security purchased be the same.

The Investment Policy also authorizes investments in covered call options or put options, which are options on the part of a third party to buy from the Pool a specified security within a finite time at a specified price. Under the Investment Policy, securities subject to covered calls are not to be used for reverse repurchase agreements, cash sufficient to pay for outstanding puts are to be invested in securities maturing on or before the expiration date of the option, the maximum maturity of a covered call option/put option is to be 90 days and not more than 10% of the total investments in the Pool could have options (in contrast to "derivatives") written against them at any one time.

The County from time to time has engaged in securities lending transactions. Generally, these transactions involve the transfer by the governmental entity, through an agent, of securities to certain broker-dealers and financial institutions or other entities in exchange for collateral, and this collateral may be cash or securities. Most commonly, these transactions provide for the return of the collateral to the securities borrower upon receipt of the same securities at a later date. Presently, the County has suspended its securities lending transactions program, but may decide to enter into a securities lending agreement with another custodian in the future. Any such securities lending transactions are considered reverse repurchase agreements under the Investment Policy and, accordingly, the total principal amount of reverse repurchase agreements and securities lending agreements may not exceed 20% of the Pool. Since the inception of the County's securities lending program in 1987, there has not been any loss of principal to the Pool resulting from these securities lending transactions or the investment of the related collateral.

Certain Information Relating to the Pool

The following table reflects information with respect to the Pool as of August 31, 2010. As described above, a wide range of investments is authorized by state law. Therefore, there can be no assurances that the investments in the Pool will not vary significantly from the investments described below. In addition, the value of the various investments in the Pool will fluctuate on a daily basis as a result of a multitude of factors, including generally prevailing interest rates and other economic conditions. Therefore, there can be no assurance that the values of the various investments in the Pool will not vary significantly from the values described below. In addition, the values specified in the following tables were based upon estimates of market values provided to the County by a third party. Accordingly, there can be no assurance that if these securities had been sold on August 31, 2010, the Pool necessarily would have received the values specified.

SAN DIEGO COUNTY INVESTMENT POOL PORTFOLIO INFORMATION
As of August 31, 2010

	Percentage of Portfolio	Book Value	Market Price	Market Value	Yield to Maturity	Weighted Average Days To Maturity
U.S. Treasury Bill	1.85%	$89,978,528	99.99%	$89,987,000	0.24%	45
U.S. Treasury Notes	6.26	290,585,402	104.78	303,868,564	2.88	777
FNMA Discount Notes	8.59	417,005,694	99.96	417,088,103	0.21	96
Federal Farm Credit Bank Notes	2.23	107,543,847	101.24	108,441,575	2.23	795
Federal Home Loan Bank Notes	13.89	667,808,702	101.36	674,231,950	1.62	683
Federal Home Loan Bank Discount Notes	0.21	9,999,817	100.00	10,000,000	0.11	7
Federal Home Loan Mortg. Corp. Disc. Notes	6.65	322,547,695	99.96	322,594,052	0.25	91
Federal Home Loan Mortg. Corp. Notes	12.40	596,148,307	101.85	601,952,828	2.445	1,150
Fannie Mae	13.67	660,176,406	101.14	663,167,834	1.96	1,177
Corporate Medium Term Notes	1.06	50,469,617	103.24	51,620,500	3.56	310
Bond Fund	0.72	35,000,000	100.30	35,105,105	0.58	1
Money Market Funds	1.52	73,785,000	100.00	73,785,000	0.07	1
Repurchase Agreements	3.63	176,763,260	100.00	176,763,260	0.28	1
Negotiable Certificates of Deposit	2.06	100,000,000	100.00	100,000,000	0.21	12
Commercial Paper	24.44	1,186,069,826	99.98	1,186,008,140	0.24	18
Collateralized/FDIC Certificates of Deposit	0.82	39,759,000	100.00	39,759,000	0.44	113
TOTALS FOR AUGUST 2010	100.00%	$4,823,641,101	100.91%	$4,854,372,911	1.18%	487
Change from Prior Month		$25,359,234	0.10%	($24,868,644)	0.01%	50

	August 2010 Return	Annualized	Fiscal Year To Date Return	Annualized	Calendar Year To Date Return	Annualized
Book Value	0.082%	0.968%	0.168%	0.987%	0.667%	1.002%
Market Value	0.074	0.873	0.149	0.876	0.594	0.893

Source: Treasurer-Tax Collector of the County of San Diego.

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APPENDIX I

PROPOSED FORM OF BOND COUNSEL OPINION

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

October 1, 2010

California Community College Financing Authority
2017 "O" Street
Sacramento, California 95814

Re: $8,255,000
California Community College Financing Authority
Lease Revenue Refunding Bonds, Series 2010B
for
MiraCosta Community College District
Palomar Community College District, and
Southwestern Community College District

Ladies and Gentlemen:

We have examined a record of proceedings relating to the issuance by the California Community College Financing Authority (the "Authority") of $8,255,000 aggregate principal amount of California Community College Financing Authority Lease Revenue Refunding Bonds, Series 2010B for MiraCosta Community College District, Palomar Community College District, and Southwestern Community College District (the "Bonds"). The Bonds are issued pursuant to the provisions of Article 4 of Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California and a Trust Indenture, dated as of October 1, 2010 (the "Indenture"), by and between the Authority and the The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Bonds are secured in part by Revenues consisting primarily of Lease Payments to be made by MiraCosta Community College District, Palomar Community College District, and Southwestern Community College District (each, a "District") pursuant to respective Lease/Purchase Agreements, each dated as of October 1, 2010 (the "Leases"), by and between the Authority, as lessor, and the Districts, as lessees. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Indenture.

In such connection, we have reviewed the Indenture, the Leases, opinions of counsel to the Authority, the Districts and the Trustee, certificates of the Authority, the Districts, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies). We have not undertaken to verify independently, and have assumed, the accuracy of the factual matters represented, warranted or certified in such documents.

Based on and subject to the foregoing and in reliance thereon, 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 Leases (to the extent more particularly described in the Indenture).

3. The Bonds are the valid and binding limited obligations of the Authority.

4. Under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations. It should be noted that, with respect to corporations, such interest 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.

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

6. The difference between the issue price of a Bond (the first price at which a substantial amount of the Bonds of a maturity are 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 Bond Owner before receipt of cash attributable to such excludable income. The amount of original issue discount deemed received by a Bond Owner will increase the Bond Owner's basis in the applicable Bond. Original issue discount that accrues to the Bond Owner is excluded from the gross income of such owner for federal income tax purposes, is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations (as described above), and is exempt from State of California personal income tax.

The opinions expressed herein may be affected by actions taken (or not taken) or events occurring (or not occurring) after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. The Indenture and the Tax Certificate relating to the Bonds permit certain actions to be taken or to be omitted if a favorable opinion of bond counsel is provided with respect thereto. No opinion is expressed herein as to the effect on the exclusion from gross income of interest (and original issue discount) for federal income tax purposes with respect to any Bond if any such action is taken or omitted based upon the advice of counsel other than ourselves. Other than expressly stated herein, we express no opinion regarding tax consequences with respect to the Bonds.

The opinions expressed herein as to the exclusion from gross income of interest (and original issue discount) on the Bonds are based upon certain representations of fact and certifications made by the respective Districts and others and are subject to the condition that the Districts 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 Bonds to assure that such interest (and original issue discount) will not become includable in gross income for federal income tax purposes. Failure to comply with such requirements of the Code might cause interest (and original issue discount) on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. The Districts have covenanted to comply with all such requirements.

In addition, we call attention to the fact that the rights and obligations under the Bonds, the Indenture and the Leases may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other similar laws relative to or affecting creditors' rights, to the application of equitable principles to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against public agencies in the State of California. We express no opinion with respect to any indemnification or contribution provisions contained in the foregoing documents.

Respectfully submitted,

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APPENDIX J

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

The following is a summary of certain provisions of the Lease/Purchase Agreements and the Indenture which are not described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to the Lease/Purchase Agreements and the Indenture for a full and complete statement of their respective provisions. All capitalized terms not defined in the Official Statement have the meanings set forth in the Lease/Purchase Agreements or the Indenture.

DEFINITIONS

"Act" means the Marks-Roos Local Bond Pooling Act of 1985, constituting Article 4, Chapter 5, Division 7, Title 1 (commencing with Section 6584) of the California Government Code, as amended.

"Agreement" means that certain Joint Exercise of Powers Agreement, dated as of May 18, 1995, and amended as of May 14, 1997 by and between the State Center Community College District and Butte Community College District, as duly amended and supplemented from time to time.

"Authorized Denomination" means $5,000 principal amount, and any integral multiple thereof.

"Authorized Officer" or "Authorized Representative" means: (i) in the case of the Issuer, any person authorized by resolution of the Board of the Issuer to perform such act or to execute such documents; (ii) in the case of a Lessee, the person or persons identified in the respective Lease, or identified as such in the records or by resolution of the Lessee, and (iii) in the case of the Trustee, any person authorized to perform any act or sign any document by or pursuant to the by-laws or any resolution of the governing body of the Trustee.

"Beneficial Owner" means a person who has a beneficial ownership interest in the Bonds purchased through a participant in the book-entry system of Cede & Co., as nominee of The Depository Trust Company, or its registered assigns.

"Board" or "Governing Board" means, with respect to the Issuer, its governing board established pursuant to the Agreement.

"Bond" or "Bonds" means any bond or bonds authenticated and delivered under the Indenture.

"Bond Counsel" means Stradling Yocca Carlson & Rauth, a Professional Corporation, San Francisco, California, or any other attorney or firm of attorneys nationally recognized for expertise in municipal finance matters including tax matters related thereto.

"Business Day" means any day other than a Saturday, Sunday or any other day on which banks are authorized to be closed for business in the Cities of New York, New York, Los Angeles or San Francisco, California or such other city in which a successor Trustee is located.

"Closing Date" means the date on which the Bonds are authenticated and delivered to the Underwriter pursuant to the Indenture.

"Code" means the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder, as the same may be amended from time to time, and any successor provisions of law. Reference to a particular section of the Code will be deemed to be a reference to any successor to any such section.

"Cost" or "Costs" means (i) the costs of any Public Capital Improvement, including Costs of Issuance, and (ii) any other costs approved by an opinion of Bond Counsel as being permitted under the Act.

"Costs of Issuance" means all items of expense directly or indirectly payable by or reimbursable to the Issuer and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to costs of preparation and reproduction of documents, printing expenses, filing and recording fees, initial fees and charges of the Trustee, legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, title insurance premiums, bond insurance premiums (if any), fees and charges for preparation, execution and safekeeping of the Bonds and any other cost, charge or fee in connection with the original issuance of the Bonds.

"Costs of Issuance Account" means the respective sub-account for each Lessee within the Costs of Issuance Fund so designated which is established pursuant to the Indenture

"Costs of Issuance Fund" means the fund so designated which is established pursuant to the Indenture

"Counsel" means an attorney at law or law firm (who or which may be Bond Counsel or counsel for the Issuer, the Trustee or a Lessee) satisfactory to the Issuer.

"County" means the County of San Diego, California.

"Dated Date" means October 1, 2010.

"Debt Service Fund" means the fund so designated which is established pursuant to the Indenture.

"Debt Service Reserve Account" means the respective sub-account for each Lessee within the Debt Service Reserve Fund so designated which is established pursuant to the Indenture

"Debt Service Reserve Fund" means the fund so designated which is established pursuant to the Indenture.

"DTC" means The Depository Trust Company, New York, New York.

"Event of Bankruptcy" will mean: (i) the Issuer will be adjudicated as bankrupt or become subject to an order for relief under federal bankruptcy law; (ii) the Issuer will institute any proceedings seeking an order for relief under federal bankruptcy law or seeking to be adjudicated a bankrupt or insolvent, or seeking dissolution, winding up, liquidation, reorganization, arrangement, adjustment or composition of it or its debts under any law relating to bankruptcy or insolvency; (iii) there will be appointed a receiver, trustee, examiner, liquidator or similar official for the Issuer under any law relating to bankruptcy or insolvency; (iv) without the application, approval or consent of the Issuer, a receiver, trustee, examiner, liquidator or similar official will be appointed for the Issuer or any substantial part of the Issuer's property and such appointment will continue undischarged or such proceedings will continue undismissed or unstayed for a period of 60 consecutive days; (v) the Issuer will make an assignment for the benefit of creditors; (vi) the Issuer will apply for or seek the appointment of a receiver, custodian, trustee, examiner, liquidator or similar official for it or any substantial part of its property; (vii) the Issuer will fail to file an answer or other pleading denying the material allegations of any proceeding filed against it described under clause (iv) above; (viii) the Issuer will take any action to authorize or effect any of the actions set forth in clauses (i) or (ii) of this definition; (ix) the Issuer will fail to contest in good faith any appointment or proceeding described in clauses (i) or (ii) of this definition.

"Event of Default" means any of the events specified in the Indenture to be an Event of Default.

"Governing Body" means the Governing Board or Board of Trustees of the respective Lessee.

"Government Obligations" means (i) direct noncallable obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) and obligations of any department, agency or instrumentality of the United States of America the timely payment of principal and interest on which is fully guaranteed by the United States of America, including instruments evidencing a direct ownership interest in securities described in this clause (i) such as CATS, TIGRs, Treasury Receipts and Stripped Treasury Coupons, which obligations are held by custodians on behalf of the holders of such receipts or (ii) bonds or notes the interest on which is excludable from gross income for purposes of Federal income taxation, are rated "AAA" by the Rating Agency and for the payment of which cash or obligations described in clause (i) of this definition in an amount sufficient (taking into account interest to be received with respect thereto) to pay the principal of, premium, if any, and interest on which when due have been irrevocably deposited with a trustee or other fiscal depositary.

"Indenture" means the Trust Indenture, as the same may be amended and supplemented from time to time.

"Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 1 Cragwood Road, 2nd Floor, South Plainfield, New Jersey, 07083, Attention: Editor; Mergent, Inc., 585 Kingsley Park Drive, Fort Mill, South Carolina 29715, Attention: Called Bond Department; and Standard & Poor's J.J. Kenny Information Services' "Called Bond Record," 55 Water Street, New York, New York 10041; or to such other addresses and/or such other services providing information with respect to called bonds as the Issuer may designate.

"Insurance and Condemnation Fund" means the fund so designated which is created pursuant to the Indenture.

"Interest Payment Account" means the account within the Debt Service Fund so designated which is established pursuant to the Indenture.

"Interest Payment Sub-Account" means the respective sub-account for each Lessee within the Debt Service Fund so designated which is established pursuant to the Indenture.

"Interest Payment Date" means April 1 and October 1, of each year, commencing April 1, 2011.

"Issuer" means the California Community College Financing Authority, a joint powers agency, duly organized and existing under the laws of the State, and its successors and assigns.

"Lease" means each Lease/Purchase Agreement, dated as of October 1, 2010, entered into by and between the Issuer and the respective Lessees, as the same may be amended and supplemented from time to time in accordance with the terms thereof.

"Lease Payment Date" means the 15th day of each March and September, commencing March 15, 2011.

"Lease Payments" means the payments and prepayments by the Lessees of amounts payable pursuant to the Leases, either respectively or in the aggregate as dictated by the context, as described in the Indenture.

"Leased Property" means, respectively or collectively, the site or sites, together with the buildings thereon, if any, described in the respective Leases.

"Lessee" means any of, MiraCosta, Palomar or Southwestern, respectively, as the case may be.

"Lessor" means the California Community College Financing Authority, a joint powers agency duly organized and existing under the laws of the State of California, and its successors and assigns.

"Local Agency" means a local agency as defined in Section 6585(f) of the Act.

"Member" means a member of the Issuer which has executed, and at the time in question is a party to, the Agreement creating the Issuer.

"MiraCosta" means the MiraCosta Community College District including the successors and assigns thereof.

"Moody's" means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency designated by the Lessee, with notice to the Trustee and the Issuer.

"Net Proceeds" means any insurance or condemnation proceeds, paid with respect to the Leased Property, remaining after payment therefrom of all expenses incurred in the collection thereof.

"Outstanding" when used as of any particular time with reference to Bonds, means all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (1) Bonds theretofore cancelled by the Trustee or surrendered to the Trustee for cancellation; (2) Bonds with respect to which all or any portion of the liability of the Issuer will have been discharged in accordance with the Indenture; and (3) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds will have been authenticated and delivered by the Trustee pursuant to the Indenture.

"Owner" means the registered owner of any Bond.

"Palomar" means the Palomar Community College District including the successors and assigns thereof.

"Participants" means those broker-dealers, banks and other financial institutions from time to time for which the Depository holds Bonds as depository.

"Payments" means Lease Payments and any other payments made to the Issuer or the Trustee pursuant to the Leases.

"Permitted Encumbrances" means, as of any particular time: (i) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the Lessee may, pursuant to the provisions of the Leases, permit to remain unpaid; (ii) the Lease, as it may be amended from time to time; (iii) the Assignment; (iv) the Site Lease; (v) 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 Dated Date and which Lessee certifies in writing will not materially impair the use of the Leased Property by the Lessee; (vii) easements, rights of way, mineral rights, drilling rights and other rights, reservations, covenants, conditions or restrictions established following the date of recordation of the Lease and to which the Lessor and the Lessee consent in writing.

"Person" means any natural person, firm, association, partnership, corporation or public body.

"Principal Component" means the original principal amount of the Bonds.

"Principal Office" means, with respect to the Trustee, the corporate trust office of the Trustee in Los Angeles, California, or any other office so designated by the Trustee.

"Principal Payment Account" means the account within the Debt Service Fund so designated which is established pursuant to the Indenture.

"Principal Payment Sub-Account" means the respective sub-account for each Lessee within the Debt Service Fund so designated which is established pursuant to the Indenture.

"Principal Payment Date" means October 1 of each year, commencing October 1, 2011.

"Program" means the Issuer's program of financing Public Capital Improvements by entering into the Lease as provided therein and permitted by the Act.

"Project" means the refinancing of Public Capital Improvements defined as the project in each respective Lease, and which are to be refinanced by the respective Lessee.

"Public Capital Improvement" means the refinancing of public capital improvements as defined in Section 6585(g) of the Act and any other projects of the Lessees that in the opinion of Bond Counsel may be financed with the proceeds of the Bonds.

"Qualified Investments" means any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested in the Indenture:

(a) For all purposes, including defeasance investments, any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested in the Indenture:

(i) Cash (fully insured by the Federal Deposit Insurance Corporation),

(ii) Direct obligations (other than an obligation subject to variation in principal repayment) of the United States of America ("U.S. Treasury Obligations"),

(iii) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by the United States of America,

(iv) obligations fully and unconditionally guaranteed as to timely payment of principal and interest by any agency or instrumentality of the United States of America when such obligations are backed by the full faith and credit of the United States of America, or

(v) evidences of ownership of proportionate interests in future interest and principal payments on obligations described above held by a bank or trust company as custodian, under which the owner of the investment is the real party in interest and has the right to proceed directly and individually against the obligor and the underlying government obligations are not available to any person claiming through the custodian or to whom the custodian may be obligated.

(b) For all purposes other than defeasance investments, any of the following which at the time of investment are legal investments under the laws of the State for the moneys proposed to be invested in the Indenture:

(i) Federal Housing Administration debentures.

(ii) The listed obligations of government-sponsored agencies which are not backed by the full faith and credit of the United States of America:

-Federal Home Loan Mortgage Corporation ("FHLMC")
Senior Debt Obligations
Participation certificates (but not including stripped mortgage securities which are purchased at prices exceeding their principal amounts)
-Farm Credit System (formerly: Federal Land Banks, Federal Intermediate Credit Banks and Banks for Cooperatives)
Consolidated system-wide bonds and notes
-Federal Home Loan Banks ("FHL Banks")
Consolidated debt obligations
-Federal National Mortgage Association ("FNMA")
Senior debt obligations
Mortgage-backed securities (but not including stripped mortgage securities which are purchased at prices exceeding their principal amounts)

(iii) Unsecured certificates of deposit, time deposits, and bankers' acceptances (having maturities of not more than 365 days) of any bank the short-term obligations of which are rated "A-1+" or better by S&P and "Prime-1" by Moody's, which may include the Trustee and its affiliates.

(iv) Deposits the aggregate amount of which are fully insured by the Federal Deposit Insurance Corporation ("FDIC"), in banks which have capital and surplus of at least $15 million.

(v) Commercial paper (having original maturities of not more than 270 days) rated at the time of purchase "A-1+" by S&P and "Prime-1" by Moody's.

(vi) Money market funds rated "AAm" or "AAm-G" by S&P, or better, and if rated by Moody's rated "Aa2" or better, including funds for which the Trustee, its parent company, if any, or any affiliates or subsidiaries of the Trustee provide investment advising or other management services.

(vii) Direct general obligations of any state of the United States of America or any subdivision or agency thereof to which is pledged the full faith and credit of a state the unsecured general obligation debt of which is rated "A3" by Moody's and "A-" by S&P, or better, or any obligation fully and unconditionally guaranteed by any state, subdivision or agency whose unsecured general obligation debt is so rated.

(viii) Direct general short-term obligations of any state agency or subdivision or agency thereof described in (vii) above and rated "A-1+" by S&P and "MIG-1" by Moody's.

(ix) Special Revenue Bonds (as defined in the United States Bankruptcy Code) of any state, state agency or subdivision described in (vii) above and rated “AA-” or better by S&P and “Aa3” or better by Moody’s.

(x) Pre-refunded municipal obligations rated “AAA” by S&P and “Aaa” by Moody’s meeting the following requirements:

(1) such municipal obligations are (A) not subject to redemption prior to maturity or (B) the trustee for such municipal obligations has been given irrevocable instructions concerning their call and redemption and the issuer of such municipal obligations has covenanted not to redeem such municipal obligations other than as set forth in such instructions;

(2) such municipal obligations are secured by cash or U.S. Treasury Obligations which may be applied only to payment of the principal of, interest and premium on such municipal obligations;

(3) the principal of and interest on the U.S. Treasury Obligations (plus any cash in the escrow) has been verified by the report of independent certified public accountants to be sufficient to pay in full all principal of, interest, and premium, if any, due and to become due on such municipal obligations (“Verification Report”);

(4) the cash or U.S. Treasury Obligations serving as security for such municipal obligations are held by an escrow agent or trustee in trust for owners of the municipal obligations;

(5) no substitution of a U.S. Treasury Obligation shall be permitted except with another U.S. Treasury Obligation and upon delivery of a new Verification Report; and

(6) the cash or U.S. Treasury Obligations are not available to satisfy any other claims, including those by or against the trustee or escrow agent.

(xi) Repurchase agreements entered into with (1) any domestic bank, or domestic branch of a foreign bank, the long term debt of which is rated at least “A-” by S&P and “A3” Moody’s; or (2) any broker-dealer with “retail customers” or a related affiliate thereof which broker-dealer has, or the parent company (which guarantees the provider) of which has, long-term debt rated at least “A-” by S&P and “A3” by Moody’s, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (3) any other entity rated at least “A-” by S&P and “A3” by Moody’s (each an “Eligible Provider”), provided that:

(A) (i) permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers), and (ii) collateral levels must be at least 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA’s and 104% of the total principal when the collateral type is FNMA and FHLMC (“Eligible Collateral”);

(B) the trustee or a third party acting solely as agent therefore or for the Issuer (the “Custodian”) has possession of the collateral or the collateral has been transferred to the Custodian in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books) and such collateral shall be marked to market;

(C) the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the Trustee, the Issuer, and the applicable Lessee setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

(D) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

(E) the repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A-” by S&P or “A3” by Moody’s, as appropriate, the provider must, notify the Issuer and the Trustee within five (5) days of receipt of such notice. Within ten (10) days of receipt of such notice, the provider shall either: (i) provide a written guarantee (i) post Eligible Collateral, or (ii) assign the agreement to an Eligible Provider. If the provider does not perform a remedy within ten (10) business days, the provider shall, at the direction of the Trustee repurchase all collateral and terminate the repurchase agreement, with no penalty or premium to the Issuer or the Trustee.

(xii) Investment agreements: with a domestic or foreign bank or corporation the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA-" by S&P and "Aa3" by Moody's, each of which shall be an Eligible Provider, provided that:

(1) interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

(2) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven (7) days' prior notice; the Issuer and the Trustee agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

(3) the provider shall send monthly reports to the Trustee and the Issuer setting forth the balance the Issuer or Trustee has invested with the provider and the amounts and dates of interest accrued and paid by the provider;

(4) the investment agreement shall state that is an unconditional and general obligation of the provider, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments thereunder ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;

(5) the Issuer and the Trustee shall receive an opinion of domestic counsel to the provider that such investment agreement is legal, valid, binding and enforceable against the provider in accordance with its terms;

(6) the Issuer and the Trustee shall receive an opinion of foreign counsel to the provider (if applicable) that (A) the investment agreement has been duly authorized, executed and delivered by the provider and constitutes the legal, valid and binding obligation of the provider, enforceable against the provider in accordance with its terms, (B) the choice of law of the state set forth in the investment agreement is valid under that country's laws and a court in such country would uphold such choice of law, and (C) any judgment rendered by a court in the United States would be recognized and enforceable in such country;

(7) the investment agreement shall provide that if during its term:

(A) the provider's rating by either S&P or Moody's falls below "AA-" or "Aa3", the provider shall, at its option, within ten (10) days of receipt of publication of such downgrade, either (i) post Eligible Collateral with the Issuer, the Trustee or a third party acting solely as agent therefore (the "Custodian") free and clear of any third party liens or claims, or (ii) assign the agreement to an Eligible Provider, or (iii) repay the principal of and accrued but unpaid interest on the investment;

(B) the provider's rating by either S&P or Moody's is withdrawn or suspended or falls below "A-" or "A3", the provider must, at the direction of the Issuer or the Trustee, within ten (10) days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Issuer or Trustee.

(9) in the event the provider is required to collateralize, permitted collateral shall include U.S. Treasury Obligations, or senior debt obligations of GNMA, FNMA or FHLMC (no collateralized mortgage obligations shall be permitted for these providers) and collateral levels must be 102% of the total principal when the collateral type is U.S. Treasury Obligations, 103% of the total principal when the collateral type is GNMA's and 104% of the total principal when the collateral type is FNMA and FHLMC ("Eligible Collateral"). In addition, the collateral shall be marked to market on a daily basis and the provider or Custodian shall send monthly reports to the Trustee, the Issuer, and the Lessees setting forth the type of collateral, the collateral percentage required for that collateral type, the market value of the collateral on the valuation date and the name of the Custodian holding the collateral;

(10) the investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Custodian has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof;

(11) the investment agreement must provide that if during its term: (A) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Issuer or the Trustee, be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate, and (B) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate; and

(xiii) Deposits in the Local Agency Investment Fund of the California State Treasurer, to the extent the Trustee is authorized to register such investments in its name.

"Rating Agency" means Standard & Poor's or any other nationally recognized securities rating agency which at the time has assigned a rating to the Bonds.

"Rebate Fund" means the fund so designated which is created pursuant to the Indenture.

"Record Date" means the fifteenth day of the month immediately preceding each Interest Payment Date, whether or not said day is a Business Day.

"Requisition" means a requisition, substantially in the form attached to the Indenture, required to be submitted to the Trustee in connection with each Costs of Issuance disbursement from the Costs of Issuance Fund.

"Reserve Facility" means any line of credit, letter of credit, insurance policy, surety bond or other credit source approved by the Insurer and deposited with the Trustee pursuant to the Indenture.

"Reserve Requirement" means, with respect to the Bonds, the least of (1) the maximum aggregate annual principal and interest payments payable with respect to the Bonds, (2) 125% of the average annual aggregate principal and interest payments payable with respect to the Bonds, and (3) 10% of the face amount of the Bonds (less original issue discount if in excess of two percent (2%) of the stated redemption amount at maturity).

"Resolution" means collectively, those certain Resolutions duly adopted by the Governing Board of the Issuer and Lessees authorizing the issuance and sale of the Bonds and the execution of the Indenture and the Leases.

"Revenues" means (a) all amounts payable by each and every Lessee pursuant to the Leases, including all extensions and renewals of the term thereof, if any, including all amounts realized upon the enforcement of any Lease and all payments to be made thereunder (including prepayments); (b) any proceeds of Bonds originally deposited with the Trustee and all moneys deposited and held from time to time by the Trustee in the funds, accounts and sub-accounts established under the Indenture (except the Rebate Fund); (c) investment income with respect to any moneys held by the Trustee in the funds, accounts and sub-accounts established under the Indenture (except the Rebate Fund); and (d) any insurance proceeds or condemnation awards received by or payable to the Trustee with respect to property leased pursuant to the Leases, including rental interruption insurance, including, but without limiting the generality of the foregoing, the present and continuing right to make claim for, collect, receive and make receipt for any Revenues whether payable pursuant to the Leases or otherwise, to bring actions and proceedings under the Leases or for the enforcement thereof, and to do any and all things which the Issuer is or may become entitled to do under the Leases; provided that the assignment of Revenues made the Indenture by shall not impair or diminish any obligation of the Issuer under the provisions of the Leases.

"Securities Depositories" means: The Depository Trust Company, 55 Water Street, New York, NY 10041, Fax (212) 855-7320, Tel (212) 555-1000; or to such other addresses and/or such other securities depositaries as the Authority may designate.

"Series 1999A Bonds" means the California Community College Financing Authority Lease Revenue Bonds, Series 1999A.

"Site Lease" means the Site Lease, dated as of the date thereof, by and between the Lessee and the Lessor, as amended and supplemented from time to time.

"Southwestern" means Southwestern Community College District, including the successors and assigns thereof.

"Standard & Poor's" means Standard & Poor's Financial Services LLC Business, a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation will be dissolved or liquidated or will no longer perform the functions of a securities rating agency, "Standard & Poor's" will be deemed to refer to any other nationally recognized securities rating agency designated by the Lessee with written notice to the Trustee and the Issuer.

"State" means the State of California.

"Tax Certificate" means that certain tax certificate dated the Closing Date concerning certain matters pertaining to the use and investment of proceeds of the Bonds executed by the Issuer and the Lessees on the Closing Date, including any and all exhibits attached thereto.

"Term of the Lease" or "Term" means the time during which the Lease is in effect, as provided for in the Lease.

"Termination Date" is defined in the Lease.

"Trust Estate" means the property pledged to the Trustee pursuant to the Granting Clauses of the Indenture.

"Trustee" means The Bank of New York Mellon Trust Company, N.A., in its capacity as trustee thereunder, and its successors in the trust thereunder.

"Underwriter" means RBC Capital Markets Corporation, as the original purchasers of the Bonds.

LEASE/PURCHASE AGREEMENTS

Each District has entered a separate Lease with the Authority. The terms and provisions of each respective Lease related to each District and that District's respective accounts and sub-accounts within Funds held by the Trustee are described below.

Payment of Costs of Issuance. Payment of Costs of Issuance shall be made from moneys deposited with the Trustee in the respective Costs of Issuance Accounts as provided in the Indenture.

Removal or Substitution. (a) The Lessee may amend, change or release the Leased Property at any time by delivering an amended description thereof to the Trustee and the Lessor. The Lessee reserves the right at any time to remove all or any portion of the Leased Property, or to substitute public facilities, equipment and/or real property owned by the Lessee for all or any portion of the Leased Property, provided that:

(i) the Lessee first obtains the prior written consent of the Lessor and provides written notice thereto to the Rating Agency and receives written evidence from the Rating Agency that such substitution will not result in a lowering or withdrawal of its rating on the Bonds;

(ii) the Lessee finds (and delivers a certificate to the Lessor and the Trustee setting forth its findings) that (i) the portion of the Leased Property remaining, or (ii) the substituted public facility, equipment and/or real property, as the case may be, has a fair market value such that the Lease Payments being made by the Lessee pursuant to the Lease will not be reduced;

(iii) the Lessee certifies that (i) the remaining portion of the Leased Property or the substituted public facility, equipment and/or real property, as the case may be, has a useful life not less than the remaining term of the Lease and (ii) no liens of the State of California or other public agency exist affecting the remedy of repossession with respect to the substituted Leased Property;

(iv) in the event the substituted Leased Property consists of real property, the Lessee obtains or causes to be obtained a title insurance policy with endorsement so as to be payable to the Trustee for the benefit of the Owners. Such policy will be in the amount equal to the Principal Component of Lease Payments attributable to the remaining portion of the Leased Property or the substituted facility and/or real property, as the case may be, and will insure the leasehold interest of the Lessor to the remaining portion of the Leased Property or the substituted facility and/or real property; and

(v) the Lessee provides the Lessor and the Trustee with an opinion of Bond Counsel that such removal or substitution, as the case may be, is authorized and in compliance with the Act and the Indenture and does not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes, the exemption of interest on the Bonds from State of California personal income taxes or the treatment of such interest with respect to the determination of an Owner's alternative minimum tax obligations.

Upon the removal or substitution of any real property and improvements thereon for all or a portion of the Leased Property then existing, the Lessee, the Lessor and the Trustee will execute and record with the Office of the County Recorder of the County of San Diego, California, any document necessary to reconvey to the Lessee the Leased Property being removed or substituted and to include the remaining or substituted real property and/or improvements thereon as all or a portion of the Leased Property.

(b) The Lessee may amend or change the Project at any time by delivering an amended Exhibit C to the Lease to the Trustee and the Lessor.

Term of Lease. The Term of the Lease will commence on the date of recordation thereof and will terminate on (i) October 1, 2019 with respect to MiraCosta; (ii) October 1, 2019 with respect to Palomar; and (iii) October 1, 2023 with respect to Southwestern, unless extended pursuant to the respective Lease or unless terminated prior thereto upon the earliest of any of the following events (the "Termination Date"):

(a) the payment or prepayment by the Lessee of all Lease Payments due during the Term of the Lease and all other amounts due and payable by the Lessee under the Indenture;

(b) the occurrence of an event of default under the Lease and the termination of the Lease by the Lessor or its assignee pursuant to the Lease thereof; or

(c) the Leased Property are taken in whole pursuant to the power of condemnation and termination of the Lease pursuant to the Lease.

If on (1) October 1, 2019 with respect to MiraCosta; (ii) October 1, 2019 with respect to Palomar; and (iii) October 1, 2023 with respect to Southwestern, ,the respective Lease Payments will not be fully paid, then the Term will be extended until all Lease Payments will be fully paid, except that the Term will in no event be extended for a period of more than ten (10) years after such date. On each Lease Payment Date during the extended Term, the respective Lessee will provide the Trustee with a schedule of payments showing the portion representing principal and the portion representing interest.

Lease Payments. The Lessee has agreed to pay to the Lessor or its successors and assigns, as rental for the use and possession of the Leased Property, the Lease Payments on the dates when due and in the amounts described in the Lease, provided that the Lessee will receive credits toward such Lease Payments as provided in the Indenture and provided further that Lease Payments are subject to abatement as provided in the Lease.

Lease Payments for each annual rental period during the Term of the Lease will constitute the total rental for said rental period and will be paid by the Lessee in each rental period for and in consideration of the right of the use and possession of, and the continued quiet use and enjoyment of, the Leased Property during each such period for which said rental is to be paid. The parties thereto have agreed and determined that such total rental will represent the fair rental value of the Leased Property. In making such determination, consideration has been given to the fair rental value of the Leased Property, other obligations of the parties under the Lease, the uses and purposes which may be served by the Leased Property and the benefits therefrom which will accrue to the Lessee and the general public.

Each Lease Payment will be paid in lawful money of the United States of America to or upon the order of the Lessor at the Principal Office of the Trustee. Any such installment of rental accruing under the Lease which will not be paid when due will, subject to applicable law, bear interest at a rate equal to the interest rate per annum then borne by the Bonds related to the Lease.

Each Lease Payment shall be paid in lawful money of the United States of America to or upon the order of the Lessor at the Principal Office of the Trustee. Lease Payments will be paid from any source of legally available funds of the Lessee, and so long as the Leased Property is available for the Lessee's use, the Lessee covenants to take such action as may be necessary to include all Lease Payments due under the Lease in its budgets and to maintain such items to the extent unpaid for that fiscal year in its budgets, and to make the necessary appropriations and supplemental appropriations to the extent necessary, for all such Lease Payments; which covenants of the Lessee have been deemed to be, and will be, ministerial duties imposed by law, and it will be the duty of each and every public official of the Lessee to take such action and do such things as are required by law in the performance of the official duty of such officials to enable the Lessee to carry out and perform the covenants made by the Lessee in the Lease. During the Term of the Lease, the Lessee will furnish to the Trustee, no later than 20 days following adoption of the budget for that fiscal period a certificate of the Authorized Representative of the Lessee that Lease Payments, in an amount calculated by the Lessor to be due in that fiscal period, have been included in the budget approved by the Governing Body of the Lessee for such fiscal period, which amount included in the budget will be sufficient in and of itself to pay such estimated Lease Payments without interest or other investment earnings thereon. In the event that any appropriation made by the Lessee in its annual budget is insufficient to pay all such Lease Payments, the Lessee further has agreed and covenanted to make a supplemental appropriation during the fiscal year of any such deficiency in an amount sufficient to make up any such deficiency.

Possession and Enjoyment. During the Term of the Lease, the Lessor will provide the Lessee with quiet use and enjoyment of the Leased Property, and the Lessee will, during such Term, peaceably and quietly have and hold and enjoy the Leased Property, without suit, trouble or hindrance from the Lessor, except as expressly set forth in the Lease. The Lessor will, at the request of the Lessee and at the Lessee's cost, join in any legal action in which the Lessee asserts its right to such possession and enjoyment to the extent the Lessor may lawfully do so. Notwithstanding the foregoing, the Lessor will have the right to inspect the Leased Property as provided in the Lease.

Title to the Leased Property. During the Term of the Lease, the Lessor will hold a leasehold interest in the Leased Property and any and all additions, replacements or modifications, except as provided below and except for those modifications which are added to the Leased Property by the Lessee and which may be removed without damaging the Leased Property.

If the Lessee has paid all Lease Payments during the Term of the Lease and the Bonds allocable to the Lessee are no longer Outstanding under the Indenture, or upon deposit of the security deposit as provided in the Lease, all right, title and interest of the Lessor in and to the Leased Property will be transferred to and vest in the Lessee. Additionally, if necessary, the Lessor will authorize, execute and deliver to the Lessee a bill of sale in order to release any and all liens created under the provisions of the Lease and the Indenture, and any other documents required to terminate the Lease and consummate such transfer of title and release of liens. The Lessor has agreed to defend and eliminate any claims adverse to the title to the Leased Property, and to save and hold the Lessee harmless therefrom; provided that the Lessor's obligations under the Lease will not extend to claims arising out of actions by the Lessee or persons asserting claims under it; provided that the Lessee will reimburse the Lessor for any costs incurred by the Lessor in defending or eliminating such claims, including reasonable attorneys' fees.

Security Deposit. Notwithstanding any other provision of the Lease, the Lessee may, on any date, secure the payment of Lease Payments by a deposit with the Trustee of: (a) an amount which, together with amounts on deposit under the Indenture which are to be credited to the Lessee's obligations thereunder to make Lease Payments, is sufficient to pay all unpaid Lease Payments required by the Lease, when due or (b) Government Obligations, together with cash, if required, in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon, be fully sufficient to pay all unpaid Lease Payments required by the Lease, when due. Such deposit will then be used to redeem or defease Bonds pursuant to the Indenture. Such deposit may not be made unless, prior to such deposit, the Lessee delivers to the Lessor and the Trustee an opinion of Bond Counsel to the effect that such deposit will not adversely affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes and the exemption of interest on the Bonds from State of California personal income taxes or the treatment of such interest with respect to the determination of a Bondholder's alternative minimum tax obligation. In the event of a deposit pursuant to the Lease, all obligations of the Lessee under the Lease and all security provided by the Lease for said obligations, will cease and terminate, excepting only the obligation of the Lessee to make, or cause to be made, Lease Payments required by the Lease, from the deposit made by the Lessee pursuant to the Lease and the obligation of the Lessee to make the payments, if any, required by the Lease. All Lessor's right, title and interest to the Leased Property will vest in the Lessee on the date of said deposit automatically and without further action by the Lessee or the Lessor, provided that such right, title and interest will be subject to the subsequent payment of Lease Payments required by the Lease, from said deposit and the payment of the payments required by the Lease in accordance with the provisions of the Lease. Said deposit will be deemed to be and will constitute a special fund for the payment of Lease Payments in accordance with the provisions of the Lease.

Abatement of Rental in the Event of Failure to Have Use and Possession of the Leased Property. The Lease Payments will be abated in whole or in part during any period during which by reason of damage or destruction (other than by condemnation which is provided for in the Lease) there is substantial interference with the use and possession of the Leased Property by the Lessee. The extent of such abatement will be in proportion to the portions of the Leased Property damaged or destroyed based upon the fair market value of the Leased Property on the Dated Date or the date of such abatement, whichever is greater; provided, however, that in the event such damage or destruction results in redemption of Bonds pursuant to the Indenture, the remaining Lease Payments (including credits to be applied thereto as provided in the Indenture) will be sufficient to pay all of the principal and interest on the remaining Outstanding Bonds allocable to the Lessee. Such abatement will not result to the extent moneys are held by the Trustee under the Indenture which are to be credited toward the respective Lessee's Lease Payments under the terms of the Indenture (including, particularly, without limitation, the respective Debt Service Reserve Account, the respective Principal Payment Sub-Account and the respective Interest Payment Sub-Account) and Net Proceeds of insurance and rental interruption insurance (plus unabated Lease Payments) are sufficient to make Lease Payments when and as due, it having been declared that such moneys and Net Proceeds constitute special funds for the payment of the Lessee's Lease Payments. Subject to the preceding sentence, such abatement or adjustment, if any, will continue for the period commencing with such damage or destruction and ending with the substantial completion of the work of repair or reconstruction, if any. In the event of any such damage or destruction, the Lease will continue in full force and effect and the Lessee has waived any right to terminate the Lease by virtue of any such damage and destruction.

No Withholding. Notwithstanding any dispute between the Lessor and the Lessee, including a dispute as to the failure of any portion of the Leased Property in use by or possession of the Lessee to perform the task for which it is leased, the Lessee will make all Lease Payments when due and will not withhold any Lease Payments pending the final resolution of such dispute.

Maintenance and Taxes. Throughout the Term of the Lease, as part of the consideration for the rental of the Leased Property, all improvement, repair and maintenance of the Leased Property will be the responsibility of the Lessee, and the Lessee will pay for or otherwise arrange for the payment of the cost of the repair and replacement of the Leased Property resulting from ordinary wear and tear or want of care on the part of the Lessee thereof. The Lessee will comply with the manufacturer's and vendor's requirements with respect to proper maintenance of the Leased Property, if any. In exchange for the Lease Payments therein provided, the Lessor has agreed to provide only the Leased Property, as more specifically set forth in the Lease. The Lessee has waived the benefits of subsections 1 and 2 of Section 1932 of the California Civil Code, but such waiver will not limit any rights of the Lessee under the terms of the Lease.

The Lessee will also pay or cause to be paid to the Lessor all taxes of any type or nature charged to the Lessor or affecting the Leased Property or the respective interests or estates in the Lease, including any sales and property taxes, or affecting the amount available to the Trustee from Lease Payments received under the Lease for the payment of the Bonds (including taxes or assessments assessed or levied by any governmental agency or district having power to levy taxes or assessments); provided, that with respect to governmental charges that may lawfully be paid in installments over a period of years, the Lessee will be obligated to pay only such installments as are required to be paid during the Term of the Lease as and when the same will become due.

The Lessee, at the Lessee's expense and in its name, may in good faith contest any such taxes and other charges and, in the event of any such contest, may permit the taxes or other charges so contested to remain unpaid during the period of such contest and any appeal therefrom unless the Lessor will notify the Lessee that, in the opinion of Counsel, by nonpayment of any such items, the interest of the Lessor in the Leased Property will be materially endangered or the Leased Property or any part thereof will be subject to loss or forfeiture, in which event the Lessee will promptly pay such taxes or charges or provide the Lessor with full security against any loss which may result from nonpayment, in form satisfactory to the Lessor.

Modification of Leased Property. The Lessee will, at its own expense, have the right to remodel the Leased Property or to make additions and modifications thereto. All such additions and modifications will thereafter comprise part of the Leased Property and be subject to the provisions of the Lease. Such additions and modifications will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of Federal income tax purposes, the exemption of interest on the Bonds from State of California personal income taxes or the treatment of such interest with respect to the determination of a Bondholder's alternative minimum tax obligation and will not in any way damage the Leased Property, substantially alter its nature or cause it to be used for purposes other than those authorized under the provisions of State and federal law, and the Leased Property, upon completion of any additions and modifications made pursuant to the Lease, will be of a value which is not substantially less than the value of the Leased Property immediately prior to the making of such additions or modifications and will not result in a decrease in the amount of Lease Payments payable thereunder.

The Lessee will not permit any mechanic's or other lien to be established or remain against the Leased Property for labor or materials furnished in connection with any remodeling, additions, modifications, repairs, renewals or replacements made by the Lessee pursuant to the Lease, provided that if any such lien is established and the Lessee will first notify the Lessor of the Lessee's intention to do so, the Lessee may, in good faith, contest any lien filed or established against the Leased Property and in such event may permit the items so contested to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom, and will provide the Lessor with full security against any loss or forfeiture which might arise from the nonpayment of any such item, in form satisfactory to the Lessor. The Lessor will cooperate fully in any such contest, upon the request and at the expense of the Lessee.

Public Liability and Property Damage Insurance. The Lessee will maintain or cause to be maintained, throughout the Term of the Lease, a standard comprehensive general insurance policy or policies in protection of the Lessee and its Board members, officers, agents and employees. Said policy or policies will provide for indemnification of said parties against direct or contingent loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the use or operation of the Leased Property. Said policy or policies will provide coverage in the minimum liability limits of $1,000,000 for personal injury or death of each person and $3,000,000 for personal injury or deaths of two or more persons in each accident or event (subject to a deductible clause of not to exceed $500,000) and $500,000 for damage to property resulting from each accident or event. Such public liability and property damage insurance may, however, be in the form of a single limit policy in the amount of not less than $3,000,000 covering all such risks. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried or required to be carried by the Lessee, and may be maintained in the form of self-insurance by the Lessee, so long as (a) the Lessee provides evidence to the Lessor and the Trustee that the Lessee has segregated amounts in a special insurance reserve meeting the requirements of the Lease, and (b) the Lessor and the Trustee receive annually a certificate of an Insurance Consultant that such reserve is actuarially sound. In such event, the Lessee covenants to maintain such reserve until the Termination Date.

Fire and Extended Coverage Insurance. The Lessee will procure, or cause to be procured, and maintain throughout the Term of the Lease, insurance against loss or damage to any part of the Leased Property by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance will, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke, sprinkler damage, boiler explosion and such other hazards as are normally covered by such insurance. Such insurance will be in an amount equal to 100% of the replacement cost of the Leased Property or the Principal Component of the Bonds then Outstanding, whichever is greater (subject to a deductible clause of not to exceed the lesser of 10% of such amount or $250,000). Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried or required to be carried by the Lessee, and may be maintained in the form of self-insurance by the Lessee, so long as (a) the Lessee provides evidence to the Lessor and the Trustee that the Lessee has segregated amounts in a special insurance reserve meeting the requirements of the Lease, and (b) the Lessor and the Trustee receive annually (within 120 days after the end of the Lessee's fiscal year) a certificate of an Insurance Consultant that such reserve is actuarially sound. In such event, the Lessee has covenanted to maintain such reserve until the Termination Date.

Rental Interruption Insurance. The Lessee will procure, and maintain throughout the Term of the Lease, rental interruption insurance to cover loss, total or partial, of the use of any part of the Leased Property as the result of any of the hazards covered in the insurance required by the Lease and the resulting loss of rental income to the Trustee, as assignee of the Lessor, in an amount sufficient to pay the maximum remaining principal and interest portions of Lease Payments due under the Lease during a period of twenty-four (24) months. The Net Proceeds of such insurance will be paid to the Trustee for deposit in the Debt Service Fund and will be credited towards the payment of the Lease Payments of the Lessee in the order in which such Lease Payments become due and payable. The Lessee may not provide self-insurance in lieu of the insurance required by the Lease.

Net Proceeds of Insurance; Form of Policies; Retaining of Insurance Consultant.

(a) The policies of insurance required by the Lease will provide that all proceeds thereunder will be payable to the Trustee pursuant to a lender's loss payable endorsement. The Net Proceeds of policies of insurance under the Lease will be paid to the Trustee to be applied as provided in the Indenture. All policies of insurance required by the Lease and any statements of self-insurance will be in form satisfactory to the Lessor. The Lessee will pay or cause to be paid when due the premiums for all insurance policies required by the Lease and will promptly furnish or cause to be furnished evidence of such payments to the Lessor. All such policies will provide that the Lessor and the Trustee will be given thirty (30) days' notice of each expiration, any intended cancellation thereof or reduction of the coverage provided thereby; provided that if the Lessee will have delivered to the Trustee a written report of an Insurance Consultant stating that the cost of obtaining an insurance policy or policies containing such 30-day notice provision is prohibitively expensive or that such policy may not be obtained, failure of the Lessee to comply with the covenant in the Indenture summarized hereby will not constitute a default thereunder. The Lessee will deliver to the Trustee on or before each anniversary of the Dated Date a certificate of the Authorized Representative of the Lessee that all insurance required under the Lease is in full force and effect. In the event that the Lessee obtains insurance through a pooled insurance program of governmental entities, an annual statement of memorandum of coverage delivered to the Trustee will satisfy the requirements of the Lease. All insurance policies required under the Lease will be provided by a commercial insurer rated "A" by Best or in the two highest rating categories of S&P. All policies will name the Lessee, and the Trustee as insureds and the Trustee as loss payee.

(b) The Lessee may elect to self-insure for Public Liability and Property Damage Insurance and, for Fire and Extended Coverage Insurance, pursuant to the Lease if and to the extent such self-insurance method or plan of protection will afford reasonable protection to the Lessor and the Trustee, in light of all circumstances, giving consideration to cost, availability and similar plans or methods of protection adopted by community college districts in the State of California other than the Lessee. If the Lessee chooses to self-insure, it must on at least an annual basis provide to the Trustee and the Lessor a certificate of an Insurance Consultant to the effect that the Lessee's general insurance reserves are adequate to provide the required amount of coverage.

The Trustee and the Lessor will not be responsible for the sufficiency of any insurance in the Lease required or payment of premium and will be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by the Lessee.

Liens. The Lessee will not, directly or indirectly, create, incur, assume or suffer to exist any pledge, lien, charge, encumbrance or claim on or with respect to the Leased Property, other than the respective rights of the Lessor, the Trustee and the Lessee as provided in the Lease and in the Indenture and Permitted Encumbrances. Except as expressly provided, the Lessee will promptly, at its own expense, take such action as may be necessary to duly discharge or remove any such mortgage, pledge, lien, charge, encumbrance or claim for which it is responsible, if the same will arise at any time. The Lessee will reimburse the Lessor for any expense incurred by it in order to discharge or remove any such pledge, lien, charge, encumbrance or claim.

Condemnation. If all or part of the Leased Property is taken under the power of condemnation, the Net Proceeds from any award resulting therefrom will be deposited with the Trustee pursuant to the Lease. If the Leased Property is taken in whole pursuant to such condemnation proceedings or is taken in part to such extent that the remaining portion of the Leased Property is no longer useful for the purposes originally intended, the remaining Lease Payment obligations of the Lessee will be abated in full and the Lease will thereupon be terminated. Otherwise, (a) the Lease will continue in full force and effect and will not be terminated by virtue of such taking and the parties waive the benefit of any law to the contrary, and (b) there will be a proportionate abatement of Lease Payments such that the resulting Lease Payments will be sufficient to pay all of the principal and interest with respect to the Outstanding Bonds. If the Lease is terminated pursuant to the second sentence of the Lease and the amount of the related condemnation award would not be sufficient to cause a termination of the Lease pursuant to the Lease, the Lessee will appeal the award pursuant to the applicable administrative and legal procedures and the obligation to pay any amount thereunder will survive the termination of the Lease.

Application of Net Proceeds.

(a) From Insurance Award. The Net Proceeds of any insurance award resulting from any damage to or destruction of the Leased Property by fire or other casualty will be deposited in the Insurance and Condemnation Fund to be held and applied by the Trustee pursuant to the Indenture. Upon such deposit, the Authorized Representative of the Lessee will file a certificate with the Trustee as provided in the Lease and the Lessee will repair and rebuild as provided in the Lease and such Net Proceeds will be applied by the Trustee as provided in the Lease.

(b) From Condemnation or Eminent Domain Award. The Net Proceeds of any condemnation or eminent domain award resulting from any event described in the Lease will be deposited in the Insurance and Condemnation Fund to be held and applied by the Trustee pursuant to the Indenture. Upon such deposit, the Authorized Representative of the Lessee will file a certificate with the Trustee as provided in the Lease and such Net Proceeds will be applied by the Trustee as provided in the Lease.

Title Insurance. The Lessee will obtain and, throughout the term thereof, maintain or cause to be maintained title insurance on the Leased Property, in the form of an ALTA or CLTA leasehold title policy, in an amount equal to the Principal Component of the Bonds. Such policy of title insurance will include an endorsement making amounts payable under the policy payable to the Trustee for the benefit of the Owners.

Agreement to Pay Program Expenses. The Lessee has agreed to pay to the Trustee, as the assignee of the Lessor, the Program fees of the Lessor charged to the Lessee and Program expenses charged to the Lessee by the Trustee or the Lessor as provided in the Indenture.

Assignment and Subleasing by the Lessee. The Lease may be assigned or the Leased Property may be subleased by the Lessee, provided, that any such assignment or sublease will be subject to all of the following conditions:

(a) The Lease and the obligation of the Lessee to make Lease Payments under the Lease will remain obligations of the Lessee; and

(b) The sublessee or assignee will become primarily liable on the obligations of the Lessee under the Lease to the extent of the interest subleased or assigned; and

(c) The Lessee will, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Lessor and the Trustee a true and complete copy of such sublease or assignment; and

(d) No such sublease or assignment by the Lessee will cause the Leased Property to be used for a purpose other than a governmental function authorized under the provisions of the Constitution and laws of the State; and

(e) The Lessee will have delivered to the Trustee an opinion of Bond Counsel to the effect that such sublease or assignment complies with the Lease and will not affect the exclusion of interest on the Bonds from gross income for Federal income tax purposes, the exemption of interest on the Bonds from State of California personal income taxes or the treatment of such interest with respect to the determination of an Owner's alternative minimum tax obligation; and

(f) Notice will be provided to the Rating Agency.

Release and Indemnification Covenants. The Lessee will and pursuant to the Lease has agreed to the extent permitted by law to indemnify and save the Lessor, the members of the Lessor, and the Trustee and the Board members, officers and employees of each of the foregoing harmless from and against all claims, losses and damages, including legal fees and expenses, arising out of (a) the use, maintenance, condition or management of, or from any work or thing done on the Leased Property by the Lessee or at its direction or request, (b) any breach or default on the part of the Lessee in the performance of any of its obligations under the Lease, (c) any act or negligence of the Lessee or of any of its agents, contractors, servants, employees or licensees with respect to the Leased Property, (d) any act or negligence of any assignee or sublessee of the Lessee, or of any agents, contractors, servants, employees or licensees of any assignee or sublessee of the Lessee with respect to the Leased Property, (e) the authorization of payment of costs of repairs to the Leased Property, (f) the Trustee's acceptance or administration of the trust, or performance of its duties under the Indenture, (g) the sale of any Bonds and the carrying out of any of the transactions contemplated by the Bonds, or (h) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other disclosure document utilized in connection with the sale of the Bonds. No indemnification to the Lessor or the Trustee is required to be made by the Lessee under the Lease or elsewhere in the Lease for willful misconduct, negligence, or breach of duty under the Lease by the Lessor, the Trustee, their officers, agents, employees, successors or assigns.

EVENTS OF DEFAULT AND REMEDIES

Events of Default Defined. The following will be "events of default" under the Lease and the terms "events of default" and "default" will mean, whenever they are used in the Lease, any one or more of the following events:

(a) Failure by the Lessee to pay any Lease Payment at the time specified in the Lease.

(b) Failure by the Lessee to observe and perform any covenant, condition or agreement on its part to be observed or performed in the Lease or in the Site Lease, other than as referred to in the Lease, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the Lessee by the Lessor, the Trustee, or the Owners of not less than twenty-five percent (25%) in aggregate principal amount of Bonds then outstanding; provided, however, if the failure stated in the notice cannot be corrected within the applicable period, the Lessor, the Trustee, and such Owners will not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the Lessee within the applicable period and diligently pursued until the default is corrected, which extension will be no longer than 180 days from the date of the notice of default.

(c) The filing by the Lessee of a voluntary petition in bankruptcy, or failure by the Lessee promptly to lift any execution, garnishment or attachment, or the filing of an involuntary petition in bankruptcy against the Lessee which petition will not have been withdrawn within thirty (30) days, or assignment by the Lessee for the benefit of creditors, or the entry by the Lessee into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the Lessee in any proceedings instituted under the provisions of the federal bankruptcy law or under any similar acts which may thereafter be enacted.

Remedies on Default. Whenever any event of default referred to in the Lease will have happened and be continuing, it will be lawful for the Lessor to exercise any and all remedies available pursuant to law or granted pursuant to the Lease; provided, however, that notwithstanding anything in the Lease or in the Indenture to the contrary, THERE WILL BE NO RIGHT UNDER ANY CIRCUMSTANCES TO ACCELERATE THE LEASE PAYMENTS OR OTHERWISE DECLARE ANY LEASE PAYMENTS NOT THEN IN DEFAULT TO BE IMMEDIATELY DUE AND PAYABLE. After the occurrence of an event of default thereunder, the Lessee will surrender possession of the Leased Property to the Lessor, if requested to do so by the Lessor, or by the Trustee or the Owners in accordance with the provisions of the Indenture.

No Termination: Repossession and Re-Lease on Behalf of Lessee. In the event the Lessor does not elect to terminate the Lease in the manner provided for in the Lease, the Lessor may, with the consent of the Lessee, which consent has been irrevocably given in the Indenture, repossess the Leased Property and re-lease it for the account of the Lessee, in which event the Lessee's obligation will accrue from year to year in accordance with the Lease and the Lessee will continue to receive the value of the use of the Leased Property from year to year in the form of credits against its obligation to pay Lease Payments. The obligations of the Lessee will remain the same as prior to such default, to pay Lease Payments whether the Lessor re-enters or not. The Lessee has agreed to and will remain liable for the payment of all Lease Payments and the performance of all conditions contained in the Lease and will reimburse the Lessor for any deficiency arising out of the re-leasing of the Leased Property, or, in the event the Lessor is unable to re-lease the Leased Property, then for the full amount of all Lease Payments to the end of the Term of the Lease, but said Lease Payments and/or deficiency will be payable only at the same time and in the same manner as provided above for the payment of Lease Payments thereunder, notwithstanding such repossession by the Lessor or any suit, brought by the Lessor for the purpose of effecting such repossession of the Leased Property and the Project or the exercise of any other remedy by the Lessor.

The Lessee has in the Lease irrevocably appointed the Lessor as the agent and attorney-in-fact of the Lessee to repossess and re-lease the Leased Property in the event of default by the Lessee in the performance of any covenants contained in the Lease to be performed by the Lessee and to remove all personal property whatsoever situated upon the Leased Property, to place such property in storage or other suitable place in the County in which the Lessee is located, for the account of and at the expense of the Lessee, and the Lessee pursuant to the Lease has exempted and agreed to save harmless the Lessor from any costs, loss or damage whatsoever arising or occasioned by any such repossession and re-leasing of the Leased Property. The Lessee has waived any and all claims for damage caused or which may be caused by the Lessor in repossessing the Leased Property as provided in the Lease and all claims for damages that may result from the destruction of or the injury to the Leased Property and all claims for damages to or loss of any property belonging to the Lessee that may be in or upon the Leased Property.

The Lessee has agreed that the terms of the Lease constitute full and sufficient notice of the right of the Lessor to re-lease the Leased Property in the event of such repossession without effecting a surrender of the Lease, and further has agreed that no acts of the Lessor in effecting such re-leasing will constitute a surrender or termination of the Lease irrespective of the term for which such re-leasing is made or the terms and conditions of such re-leasing, or otherwise, but that, on the contrary, in the event of such default by the Lessee the right to terminate the Lease will vest in the Lessor to be effected in the sole and exclusive manner provided for in the Lease. The Lessee has further waived the right to any rental obtained by the Lessor in excess of the Lease Payments and has conveyed and released such excess to the Lessor as compensation to the Lessor for its services in re-leasing the Leased Property.

Termination: Repossession and Re-Lease. In the event of the termination of the Lease by the Lessor at its option and in the manner provided in the Lease on account of default by the Lessee (and notwithstanding any repossession of the Leased Property by the Lessor in any manner whatsoever or the re-leasing of the Leased Property), the Lessee nevertheless has agreed to pay to the Lessor all costs, losses or damages howsoever arising or occurring payable at the same time and in the same manner as is provided in the Lease in the case of payment of Lease Payments. Any proceeds of the re-lease or other disposition of the Leased Property by the Lessor will be delivered to the Trustee for deposit first into the Interest Payment Account, and to the extent such account is funded to the extent then required under the Indenture, in the Principal Payment Account and will be applied in accordance with the provisions of the Indenture. Any surplus received by the Lessor from such re-leasing will be the absolute property of the Lessor and the Lessee will have no right thereto, nor will the Lessee be entitled to any credit in the event of a surplus in the rentals received by the Lessor. Neither notice to pay rent or to deliver up possession of the Leased Property given pursuant to law nor any proceeding taken by the Lessor to recover possession of the Leased Property will of itself operate to terminate the Lease, and no termination of the Lease on account of default by the Lessee will be or become effective by operation of law, or otherwise, unless and until the Lessor will have given written notice to the Lessee of the election on the part of the Lessor to terminate the Lease. The Lessee has covenanted and agreed that no surrender of the Leased Property for the remainder of the Term thereof or any termination of the Lease will be valid in any manner or for any purpose whatsoever unless stated or accepted by the Lessor by such written notice. No such termination will be effected either by operation of law or act of the parties thereto, except only in the manner therein expressly provided in the Lease.

Opinion of Bond Counsel. The re-leasing of the Leased Property as provided in the Lease will be subject to the written consent of the Lessor and the opinion of Bond Counsel addressed to the Lessor that such re-leasing will not affect the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation, the exemption of interest on the Bonds from State of California personal income taxes or the treatment of such interest with respect to the determination of an Owner's alternative minimum tax obligation.

TRUST INDENTURE

ESTABLISHMENT AND APPLICATION OF FUNDS

Establishment of Funds, Accounts and Sub-Accounts within Funds. Pursuant to the Indenture there have been established with the Trustee the following funds, accounts and sub-accounts within funds, each of which will be held by the Trustee, for the term of the Indenture, in accounts segregated from all other moneys of the Trustee:

(a) A Costs of Issuance Fund, and within such fund,

(i) the MiraCosta Costs of Issuance Account;

(ii) the Palomar Costs of Issuance Account; and

(iii) the Southwestern Costs of Issuance Account; and

(b) a Debt Service Fund, and within such fund,

(i) an Interest Payment Account, and within such account,

(A) the MiraCosta Interest Payment Sub-Account;

(B) the Palomar Interest Payment Sub-Account; and

(C) the Southwestern Interest Payment Sub-Account; and

(ii) a Principal Payment Account, and within such account,

(A) the MiraCosta Principal Payment Sub-Account; and

(B) the Palomar Principal Payment Sub-Account;

(C) the Southwestern Principal Payment Sub-Account;

(c) a Debt Service Reserve Fund, and within such fund,

(i) the MiraCosta Debt Service Reserve Account;

(ii) the Palomar Debt Service Reserve Account and ;

(iii) the Southwestern Debt Service Reserve Account and ;

(d) an Insurance and Condemnation Fund, and within such fund,

(i) the MiraCosta Insurance and Condemnation Account, and within such Account;

(A) the MiraCosta Insurance and Condemnation Redemption Sub-Account; and

(ii) the Palomar Insurance and Condemnation Account, and within such Account;

(A) the Palomar Insurance and Condemnation Redemption Sub-Account;

(iii) the Southwestern Insurance and Condemnation Account, and within such Account;

(A) the Southwestern Insurance and Condemnation Redemption Sub-Account;

(e) a Rebate Fund, and within such fund,

(i) the MiraCosta Rebate Account;

(ii) the Palomar Rebate Account; and

(ii) the Southwestern Rebate Account.

The Trustee may also, from time to time, establish additional funds, accounts and/or sub-accounts to hold moneys on behalf of the Lessees and the Owners.

Costs of Issuance Fund.

(a) Within the Costs of Issuance Fund, the Trustee will establish separate Costs of Issuance Accounts for each of the participating Lessees, and the Trustee will keep such sub-accounts separate and apart from all other funds and accounts held by it, and will administer such accounts as provided in the Indenture.

(b) The Trustee will apply moneys in the respective Costs of Issuance Accounts in accordance with the Indenture. Disbursements from the respective Costs of Issuance Accounts will be made as provided in the Indenture.

(c) Costs of Issuance specifically attributable to a particular Lessee will be borne by that Lessee, and all other Costs of Issuance will be equally allocated to all the participating Lessees on the Closing Date.

(d) If any funds remain on deposit in a Lessee's respective Costs of Issuance Account on March 30, 2011 the Trustee will transfer such funds to that Lessee's Debt Service Reserve Account of the Debt Service Reserve Fund if the amount on deposit therein is less than the respective Reserve Requirement, and thereafter will, at the written direction of that Lessee, do any of the following: (i) transfer such funds to that Lessee's Interest Payment Sub-Account of the Debt Service Fund.

Rebate Funds.

(a) Establishment. The Trustee will establish a separate Rebate Fund for the Bonds and separate Rebate Fund Accounts for each of the participating Lessees. The Trustee will keep such Fund and accounts separate and apart from all other funds and accounts held by it, and will administer such Fund as provided in the Indenture. Absent an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected, the Issuer will cause to be deposited in the Rebate Fund such amounts as are required to be deposited therein pursuant to the Indenture and the Tax Certificate. All money at any time deposited in the Rebate Fund will be held by the Trustee in trust for payment to the United States Treasury. All amounts on deposit in the Rebate Fund for the Bonds will be governed by the Indenture and the Tax Certificate for the Bonds, unless and to the extent that the Issuer delivers to the Trustee an opinion of Bond Counsel that the exclusion from gross income for federal income tax purposes of interest on the Bonds will not be adversely affected if such requirements are not satisfied.

(i) Computation. Within 75 days of the end of each fifth Bond Year (as such term is defined in the Tax Certificate), the Issuer will calculate or cause to be calculated the amount of the rebatable arbitrage, in accordance with Section 148(f)(2) of the Code and Section 1.148-3 of the Treasury Regulations (taking into account any applicable exceptions with respect to the computation of the rebatable arbitrage, described, if applicable, in the Tax Certificate (*e.g.*, the temporary investments exceptions of Section 148(f)(4)(B) and (C) of the Code), the "small governmental issuer exception" of Section 148(f)(4)(D) of the Code and Section 1.148-8 of the Treasury Regulations, and taking into account whether the election pursuant to Section 148(f)(4)(C)(vii) of the Code (the "1½% Penalty") has been made), for this purpose treating the last day of the applicable Bond Year as a computation date, within the meaning of Section 1.148-1(b) of the Treasury Regulations (the "Rebatable Arbitrage"). The Issuer may obtain expert advice as to the amount of the Rebatable Arbitrage to comply with the Indenture.

(ii) Transfer. Within 65 days of the end of each fifth Bond Year, upon the written request of the Issuer, an amount will be deposited to the Rebate Fund by the Trustee from any Revenues legally available for such purpose (as specified by the Issuer in the aforesaid written request), if and to the extent required so that the balance in the respective Rebate Fund Account will equal the amount of that Lessee's Rebatable Arbitrage so calculated in accordance with the Indenture. In the event that immediately following the transfer required by the previous sentence, the amount then on deposit to the credit of any Rebate Fund Account exceeds the amount required to be on deposit therein, upon written request of the Issuer, the Trustee will withdraw the excess from the Rebate Fund and then credit the excess to the Lease Payment Fund.

(iii) Payment to the Treasury. The Trustee will pay, as directed by request of the Issuer, to the United States Treasury, out of amounts in the respective Rebate Fund Account,

(A) Not later than 60 days after the end of (X) the fifth Bond Year, and (Y) each applicable fifth Bond Year thereafter, an amount equal to at least 90% of the Rebatable Arbitrage calculated as of the end of such Bond Year; and

(B) Not later than 60 days after the payment of all the Bonds, an amount equal to 100% of the Rebatable Arbitrage calculated as of the end of such applicable Bond Year, and any income attributable to such Rebatable Arbitrage, computed in accordance with Section 148(f) of the Code.

In the event that, prior to the time of any payment required to be made from the Rebate Fund, the amount in the Rebate Fund is not sufficient to make such payment when such payment is due, the Issuer will calculate or cause to be calculated the amount of such deficiency and deposit an amount received from any legally available source equal to such deficiency prior to the time such payment is due. Each payment required to be made pursuant to the Indenture will be made to the Internal Revenue Service Center, Philadelphia, Pennsylvania 19255 on or before the date on which such payment is due, and will be accompanied by Internal Revenue Service Form 8038-T (prepared by the Issuer), or will be made in such other manner as provided under the Code,

(b) Disposition of Unexpended Funds. Any funds remaining in the Rebate Fund after redemption and payment in full of the Bonds and the payments described in the Indenture being made may be withdrawn upon written direction provided to the Trustee by the Issuer and utilized in any manner by the Issuer.

(c) Survival of Defeasance. Notwithstanding anything in the Indenture to the contrary, the obligation to comply with the requirements of the Indenture will survive the defeasance or payment in full of the Bonds.

The Trustee will not be responsible for calculating rebate amounts or for the adequacy or correctness or any rebate report or rebate calculations. The Trustee will be deemed conclusively to have complied with the provisions of the Indenture and any other agreement relating to the Bonds regarding calculation and payment of rebate if it follows the directions or request of the Issuer and it will have no independent duty to review such calculations or enforce the Issuer's compliance with such rebate requirements.

Revenues to be Paid Over to Trustee. The Issuer has caused the Revenues to be paid directly to Trustee. If, notwithstanding these arrangements, the Issuer receives any Payments under a Lease, the Issuer will immediately pay over the same to the Trustee.

Debt Service Fund.

(a) Within the Debt Service Fund, the Trustee will establish an Interest Payment Account and a Principal Payment Account, and within each account will establish separate sub-accounts for each of the participating Lessees, and the Trustee will keep such accounts and sub-accounts separate and apart from all other funds, accounts and sub-accounts held by it, and will administer such accounts as provided in the Indenture.

(b) The Trustee will pay interest on the Bonds allocable to each Lessee as it will become due and payable from moneys on deposit in the Interest Payment Sub-Account of each respective Lessee.

(c) The Trustee will apply moneys on deposit in the Principal Payment Sub-Account of each Lessee to pay the redemption price of that portion of the Bonds called for redemption allocable to the Lessee on the redemption date thereof and the principal of Bonds at maturity, as provided in the Indenture.

(d) No Lessee is required to make up any deficiency in the respective sub-accounts within the Debt Service Fund of any other Lessee, and the Trustee is prohibited from applying any monies in the sub-accounts of the Debt Service Fund of any Lessee to the obligations of any other Lessee.

Debt Service Reserve Fund.

(a) Within the Debt Service Reserve Fund, the Trustee will establish separate Debt Service Reserve Accounts for each of the participating Lessees, and the Trustee will keep such accounts separate and apart from all other funds, accounts and sub-accounts held by it, and will administer such accounts as provided in the Indenture.

(b) If one day after any Lease Payment Date the amount on deposit in any Lessee's Interest Payment Sub-Account is less than the aggregate amount of interest payable under the respective Lease during the period commencing on the immediately preceding Interest Payment Date and ending on such Lease Payment Date, the Trustee will transfer from the respective Debt Service Reserve Account to the respective Interest Payment Sub-Account an amount equal to such deficiency.

(c) If one day after any Lease Payment Date the amount on deposit in any Lessee's Principal Payment Sub-Account is less than the aggregate amount of principal payable under the respective Lease during the period commencing on the immediately preceding Principal Payment Date and ending on such Lease Payment Date, the Trustee will transfer from the respective Debt Service Reserve Account to the respective Principal Payment Sub-Account an amount equal to such deficiency.

(d) If at any time the aggregate of the amounts on deposit in any Lessee's Debt Service Reserve Account, Interest Payment Sub-Account, Principal Payment Sub-Account, and Insurance and Condemnation Redemption Sub-Account equals or exceeds the Principal Component allocable to that Lessee and the interest payable thereon, the amount on deposit in the respective Debt Service Reserve Account will be transferred to the respective Principal Payment

Sub-Account and the respective Interest Payment Sub-Account and will be applied as a credit against the obligation of the Lessee to make Payments under its Lease.

(e) Except as otherwise provided in the Indenture, within two Business Days of the date of each valuation of funds and accounts pursuant to the Indenture, the Trustee will transfer any amount in excess of the respective Reserve Requirement on deposit in the respective Debt Service Reserve Account to the Interest Payment Sub-Account of the respective Lessee.

(f) If (i) with respect to any Lessee, any amounts are transferred from the respective Debt Service Reserve Account to the respective Interest Payment Sub-Account or the respective Principal Payment Sub-Account as provided in the Indenture, or (ii) with respect to the particular Lessee, the amount on deposit in the respective Debt Service Reserve Account will be less than the respective Reserve Requirement as a result of a decrease in the market value of the Qualified Investments held therein as of a valuation date, pursuant to the Indenture, the respective Lessee will be required, to the extent permitted by law, to include in its Payment on the next Lease Payment Date the amount necessary to bring the amount in its respective Debt Service Reserve Account up to its respective Reserve Requirement. Any such portion of any Lessee's Payment will be deposited in the respective Debt Service Reserve Account.

(g) In lieu of funding the Debt Service Reserve Fund with cash, the Issuer may at any time and with the prior written approval of the Trustee and with prior notice to the Rating Agency then providing a Rating on the Bonds obtain a Reserve Facility issued by a financial institution having unsecured debt obligations rated at least "AA" by the Rating Agency, in an amount, together with moneys, Qualified Investments or any other Reserve Facility there on deposit in the Debt Service Reserve Fund, equal to the Reserve Requirement. Such Reserve Facility will have an original term of not less than three (3) years or, if less, the final Interest Payment Date of the Bonds, have a rating of at least "A+" by S&P as long as the Bonds remain outstanding, and such Reserve Facility will provide by its terms that it may be drawn upon as provided in the Indenture. At least one year prior to the stated expiration of such Reserve Facility, the Issuer will either (i) obtain a replacement Reserve Facility, (ii) obtain an extension of the Reserve Facility for at least an additional year, or if less, the final Interest Payment Date of the Bonds, or (iii) obtain a Reserve Facility satisfying the requirements of the Indenture. If the Issuer will fail to obtain a replacement Reserve Facility, the Issuer will commence to make monthly deposits of additional Lease Payments collected pursuant to the Leases so that an amount equal to the Reserve Requirement will be on deposit in the Debt Service Reserve Fund no later than the stated expiration date of the Reserve Facility. If an amount equal to the Reserve Requirement as of the date following the expiration of the Reserve Facility is not on deposit in the Debt Service Reserve Fund, the Trustee will, one week prior to the stated expiration date of such Reserve Facility (excluding from such determination the Reserve Facility), draw on such Reserve Facility to fund the deficiency resulting therefrom in the Debt Service Reserve Fund.

Revenues to Be Held for All Owners; Certain Exceptions. Revenues will, until applied as provided in the Indenture, be held by the Trustee for the benefit of the Owners of all Outstanding Bonds as their interests may appear. The amounts on deposit in each fund, account and sub-account held under the Indenture (other than the Rebate Fund) will be held for the benefit of the Owners, as their respective interests may appear. The amount on deposit in the Rebate Fund will be held for the benefit of the United States Treasury.

Lease Defaults. Upon the occurrence of an event of default under any Lease, written notice of which is received by the Trustee from the Issuer, the respective Lessee or the Owners of not less than twenty-five percent in aggregate principal amount of the Outstanding Bonds, the Trustee will give notice thereof to the Issuer and the Rating Agency.

Subject to the Indenture, upon the occurrence of any event of default under the Lease, the Trustee will pursue the remedies against the respective Lessee thereunder available to it as assignee of the rights of the Issuer under the respective Lease.

Application of Excess Amounts. All amounts remaining in the funds and accounts created under the Indenture after payment in full of the Bonds allocable to a particular Lessee (or making provision for such payment in accordance with the Indenture) and after payment in full of the fees and expenses of the Trustee allocable to the respective Lessee and all other amounts required to be paid under the Indenture and under the Tax Certificate allocable to a respective Lessee will be paid to a respective Lessee.

Insurance and Condemnation Fund. Within the Insurance and Condemnation Fund, and within each Insurance and Condemnation Fund Account, the Trustee will establish separate Insurance and Condemnation Redemption Fund Sub-Accounts for each of the participating Lessees, and the Trustee will keep such sub-accounts separate and apart from all other funds, accounts and sub-accounts held by it, and will administer such funds, accounts and sub-accounts as provided in the Indenture. All Net Proceeds (as defined in the Leases) of insurance or condemnation awards with respect to a respective Lease which are received by the Trustee will be deposited in the respective Insurance and Condemnation Fund Account or Sub-Accounts; provided, however, that any Net Proceeds of rental interruption insurance or a performance bond will be deposited first in the respective Interest Payment Sub-Account of the respective Lessee's within the Debt Service Fund, and, second, in the Principal Payment Sub-Account as required to make payments of principal of and interest on the Bonds allocable to the respective Lessee. The Trustee will promptly give notice of the receipt of Net Proceeds of insurance or awards to the respective Lessee and the Issuer.

(a) Application of Net Proceeds of Insurance.

(i) The Net Proceeds of any insurance paid pursuant to a Lease resulting from any damage or destruction to the respective Leased Property (except rental interruption insurance) will be deposited with the Trustee in the respective Insurance and Condemnation Fund Account. Within 60 days of such deposit the Lessee will certify to the Trustee (A) as to whether the Leased Property has been damaged or destroyed in whole or in part, (B) as to whether Net Proceeds are to be utilized for the repair, replacement or improvement of all or specified components (the "Repairable Components") of the damaged or destroyed portion of the Leased Property and, if so, that sufficient funds, together with the Net Proceeds related to the Repairable Components, have been appropriated by the Lessee to pay the total cost of such repair, replacement or improvement, and (C) as to whether repair, replacement or improvement of all or specified components (the "Unrepairable Components") of the damaged or destroyed portion of the Leased Property is not economically feasible or in the best interest of the respective Lessee, or, in the event that damage, destruction or taking results in an abatement of respective Lease Payments, whether such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds will be available to pay in full all Lease Payments coming due in such period as described in the respective Lease. Notwithstanding the foregoing, if the Leased Property has been damaged in whole, but the Net Proceeds, together with funds then on hand in the respective Costs of Issuance Account, Interest Payment Sub-Account, Principal Payment Sub-Account and Debt Service Reserve Account (which may include funds voluntarily deposited therein by the Lessee for such purpose) are not sufficient to redeem all of that portion of the outstanding Bonds allocable to the respective Lessee, then that Lessee will not be permitted to certify that repair, replacement. or improvement of the Leased Property is not economically feasible or in the best interest of the Lessee. In such event, the Lessee will proceed to repair, replace or improve the Leased Property and will make the required certification to the Trustee as described above; provided, that the covenant in the Indenture summarized hereby will not be interpreted in a manner which would make any obligation under the Indenture a debt for purposes of any debt limitation contained in the California Constitution or other California law.

(ii) If the certification described in the Indenture is to the effect that Net Proceeds are to be utilized for the repair, replacement or improvement of Repairable Components of the damaged or destroyed portion of the Leased Property and the Lessee further certifies that (A) sufficient funds, together with the Net Proceeds related to such Repairable Components, have been appropriated to pay the total cost of such repair, replacement or improvement, and (B) in the event that the damage, destruction or taking results in an abatement of Lease Payments, that such replacement or repair can be fully completed within a period not in excess of the period in which rental interruption insurance proceeds will be available to pay in full all Lease Payments coming due in such period, the Trustee will disburse the Net Proceeds related to the Repairable Components to the Lessee upon receipt of its Requisitions therefor (substantially in the form in the Indenture) in order for the Lessee to cause the Repairable Components to be repaired, replaced or improved to at least the same good order, repair and condition as they were in prior to the damage or destruction, insofar as the same may be accomplished with said funds, and upon receipt of certification by the Lessee that such repairs, replacements and improvements are completed, the Trustee will transfer any excess Net Proceeds related to the Repairable Components to the Principal Payment Account to be credited against the Lessee's next Lease Payment. If such certification is also, or alternatively, as the case may be, to the effect that repair, replacement or improvement of the Unrepairable Components is not economically feasible or in the best interest of the Lessee or not able to be accomplished in the period for which rental interruption insurance proceeds will be available to pay in full Lease Payments coming due in such period or that sufficient funds, together with the Net Proceeds related to the Unrepairable Components, have not been appropriated by the Lessee to pay the total costs of such repair, replacement or improvement (and such a certification is permitted by the requirements of the Indenture), the Trustee will transfer the Net Proceeds designated in writing by the Lessee as related to the Unrepairable Components to the Insurance and Condemnation Redemption Account to be applied to the redemption of related Bonds as provided in the Indenture.

(b) Application of Proceeds of Condemnation Award.

(i) If any part of the Leased Property is taken by eminent domain proceedings, the Net Proceeds therefrom will be deposited in the respective Insurance and Condemnation Fund Account. Within 60 days of such deposit the respective Lessee will certify to the Trustee (A) as to whether the respective Leased Property has been taken in whole or in part pursuant to such proceedings, (B) as to whether the remaining portion of the Leased Property is still useful for the purposes originally intended and (C) as to whether it desires that any available Net Proceeds from such eminent domain proceedings be applied for repair or replacement of the respective Leased Property and, if so, that sufficient funds, together with such Net Proceeds, have been appropriated by the respective Lessee to pay the total cost of such repair and replacement and, that in the event such taking results in an abatement of Lease Payments obligated to be paid by the respective Lessee, that such repair or replacement is able to be accomplished in the period for which rental interruption insurance proceeds will be available to pay in full all Lease Payments obligated to be paid by the respective Lessee coming due in such period. If such certification is to the effect that the respective Leased Property has been taken in whole pursuant to such eminent domain proceedings or has been taken in part to such extent that the remaining portion of the respective Leased Property of that Lessee is no longer useful for the purposes originally intended or if the necessary replacement or repair is not able to be accomplished in the period for which rental interruption insurance proceeds will be available to pay in full all Lease Payments obligated to be paid by the respective Lessee coming due in such period, the Trustee will transfer all of such Net Proceeds to the Insurance and Condemnation Redemption Sub-Account to be applied to the redemption of that portion of the Bonds allocable to the respective Lessee as provided in the Indenture. If such certification is to the effect that the respective Leased Property has been taken in part pursuant to such eminent domain proceedings and that the remaining portion of the Leased Property is still useful for the purposes originally intended, the Trustee will, at the direction of the respective Lessee, either (1) transfer such Net Proceeds to that Lessee's Insurance and Condemnation Redemption Sub-Account to be applied to the redemption of that portion of the Bonds allocable to the respective Lessee as provided in the Indenture; or (2) if such certification is also to the effect that the respective Lessee desires that any available Net Proceeds be applied for repair or replacement of the respective Leased Property, and that sufficient funds, together with such Net Proceeds, have been appropriated by the respective Lessee to pay the total cost of such repair and replacement and that such repair and replacement is able to be accomplished in the period for which rental interruption insurance proceeds will be available as described above, disburse such Net Proceeds to the respective Lessee upon receipt of its requisitions therefor (substantially in the form in the Indenture) in order for the respective Lessee to cause the respective Leased Property to be repaired, replaced or improved to at least the same good order, repair and condition as it was in prior to the eminent domain proceedings, insofar as the same may be accomplished with said funds, and transfer any excess Net Proceeds to the Principal Payment Sub-Account to be credited against the respective Lessee's next Lease Payment.

(ii) The Trustee may obtain, but is in no event obligated to, at the respective Lessee's expense, the report of an independent engineer or other independent consultant in order to verify the conclusions stated in any certificate submitted to the Trustee as provided in the Indenture or to make any determination with respect to the application of such Net Proceeds. The Trustee may rely conclusively on such reports.

INVESTMENT AND DEPOSIT OF FUNDS

Deposits and Security Therefor. All Revenues received by the Trustee under the Indenture for deposit in any fund, account or sub-account established under the Indenture will, except provided in the Indenture, be deposited with the Trustee, until or unless expended or invested or deposited as provided in the Indenture.

Application of Revenues. The Trustee will deposit Revenues, immediately upon receipt thereof, in the funds and accounts established under the Indenture as described in the Indenture.

(a) The original proceeds of the Bonds will be deposited as provided in the Indenture.

(b) Income earned on the investment of the funds and accounts established under the Indenture will be applied as provided in the Indenture.

(c) The Trustee will pay that portion of any Payments received from the respective Lessee which represent fees, expenses and indemnification payments payable to the Issuer, the Trustee or any other person or entity, as directed by the Issuer (provided no direction will be required for amounts payable to the Trustee).

(d) The principal portion of any Payments allocable to each Lessee will be deposited by the Trustee in the respective Principal Payment Sub-Account of the Debt Service Fund.

(e) The interest portion of any Payments allocable to each Lessee will be deposited by the Trustee in the respective Lessee's Interest Payment Sub-Account of the Debt Service Fund.

(f) The portion of any Payment allocable to each Lessee required as a result of a drawing on the respective Debt Service Reserve Account (or decrease in market value thereof) as provided in the Indenture will be deposited by the Trustee in the respective Debt Service Reserve Account.

(g) The portion of any Payment received which is not required to be deposited or expended pursuant to the Indenture will be deposited by the Trustee in the respective Lessee's Interest Payment Sub-Account of the Debt Service Fund.

(h) Any proceeds realized upon the enforcement of remedies with respect to the Leases after the occurrence of an Event of Default will be deposited in the respective Lessee's Principal Payment Sub-Account or Interest Payment Sub-Account of the Debt Service Fund, as applicable.

(i) Any moneys received upon the prepayment of the Lease Payments will be deposited in the respective Lessee's Principal Payment Sub-Account or Interest Payment Sub-Account of the Debt Service Fund, as applicable.

(j) Any insurance proceeds or condemnation awards allocable to a particular Lessee paid to the Trustee upon the damage, destruction or condemnation of all or a portion of the Leased Property or the respective Project will be applied as provided in the Indenture.

(k) Prior to any Event of Default, if the amount of any regularly scheduled Payment allocable to a Lessee (or payment pursuant to a respective performance bond or respective rental interruption insurance pursuant to the Indenture) is not sufficient to make all of the deposits and payments required by the Indenture, the Trustee will FIRST, make the deposit with respect to interest allocable to the respective Lessee required by the Indenture; SECOND, make the deposit with respect to principal allocable to the respective Lessee required by the Indenture; THIRD, make the deposit with respect to the respective Debt Service Reserve Account required by the Indenture; FOURTH make the payments allocable to the respective Lessee with respect to fees and expenses required by the Indenture; and FIFTH make the deposit allocable to the respective Lessee required by the Indenture.

Investment or Deposit of Funds.

(a) Moneys in the funds, accounts and sub-accounts under the Indenture will be invested, to the extent permitted by law, in Qualified Investments at the direction of the respective Lessee given to the Trustee by facsimile at least two Business Days in advance of the investment date and promptly confirmed by mailing the original of such direction to the Trustee. The Trustee will be entitled to rely conclusively upon the directions received by facsimile under the Indenture. In the absence of such written investment direction from the respective Lessee, the Trustee will promptly request written investment direction from such Lessee. All such investments directed by a Lessee will (i) be made so as to mature or be subject to withdrawal on or prior to the date or dates that moneys therefrom are anticipated to be required, (ii) be made under a binding contract which permits the exchange of such investments for investments which mature on or prior to the date or dates that moneys are so anticipated to be required or (iii) be in obligations subject to a binding contract for purchase on a date which is prior to the date or dates that moneys are so anticipated to be required. Moneys in the Debt Service Reserve Fund will be invested in Qualified Investments which mature not later than 5 years from the date of purchase by the Trustee; provided, however, that the five-year maturity limitation will not apply to investments in Investment Agreements. Moneys in the Debt Service Reserve Fund which are invested in an Investment Agreement will be subject to withdrawal on or prior to the date or dates that moneys therefrom are anticipated to be required.

The Trustee may trade with itself in the purchase and sale of securities for such investment. The Trustee will not be liable or responsible for any loss resulting from any such investments. Investments in Government Obligations under the Indenture may be made through repurchase agreements or Investment Agreements, executed by Trustee at the written direction of the Lessee with banks or other financial institutions or with any securities dealer which is registered as a dealer under the Securities Exchange Act of 1934, as amended, and is monitored by, reports to, and is recognized as a primary dealer by, the Federal Reserve Bank and which has a net capital of at least $75,000,000, provided that each such agreement (a) is acceptable in form to the Trustee, (b) provides for the transfer of certificated Government Obligations to the custody of the Trustee or one of its affiliates or for the registration of title to "book entry" Government Obligations in the Trustee, or one of its nominees in such Federal Reserve Bank, (c) provides that Government Obligations acquired pursuant to such agreements will be valued at least daily at the then current market value thereof, and provided that the provisions thereof result in a transfer to the Trustee or one of its nominees of all securities which are the subject of such repurchase agreements or investment agreements, and (d) the unsecured long term debt obligations of the counterparty to such repurchase agreement must be rated at least "AA" by the Rating Agency, and the value of such Government Obligations must be equal to at least 102% of the cash transferred by the Issuer to the counterparty plus accrued interest, and the maturity of such repurchase agreement must be no longer than one year and marked to market on a daily basis with deficiencies made up in cash or securities within one day.

(b) Except as provided in the Indenture, the interest and income received upon such investments from their date of purchase, any interest paid by the Trustee or any other depositary of any fund or account and any profit resulting from the sale of any investment in any fund or amount will upon receipt be deposited and credited to the fund or account which produced such interest, income or profit. Any loss resulting from the sale of any investment in any fund or account will be charged to the fund or account in question.

(c) At the direction of the Issuer, or on its own initiative whenever a payment is to be made out of any fund or account, the Trustee will sell such securities as may be required to make the payment and restore the proceeds to the fund or account in which the securities were held.

(d) Neither the Trustee nor the Issuer nor their agents will be accountable for any depreciation in the value of any such security or for any loss resulting from the sale thereof.

(e) The moneys held by the Trustee in the various funds and accounts established under the Indenture may be pooled for the purposes of investment only, and such moneys may be invested as one account; provided, that the Trustee will keep records of the amount allocable to each fund and account which is pooled for investment purposes pursuant to the Indenture.

EVENTS OF DEFAULT AND REMEDIES

Events of Default Defined. Each of the following will be an "Event of Default" under the Indenture:

(a) If payment will not be made of any interest upon any of the Bonds at any due date expressed therefor; or

(b) If payment of any part of the principal, or premium, if any, on any of the Bonds will not be made at maturity as expressed in the Indenture, or otherwise; or

(c) If any Event of Bankruptcy occurs;

(d) If the Issuer will default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Indenture or any indenture supplemental thereto on the part of the Issuer to be performed, and such default will continue for thirty (30) days after written notice specifying such default and requiring the same to be remedied will have been given to the Issuer by the Trustee, which may give such notice in its discretion and will give such notice at the written request of the Owners of not less than twenty-five percent (25%) in aggregate principal amount of the Bonds then Outstanding under the Indenture; or

(e) If an event of default occurs under any Lease.

Remedies. If any Event of Default occurs and is continuing, the Trustee may enforce each and every right granted to it as assignee of the Leases and may exercise any and all remedies available pursuant to law under the respective Lease. In exercising such rights and the rights given the Trustee under the Indenture, the Trustee will take such action as, in the judgment of the Trustee applying the standards and subject to satisfactory indemnity described in the Indenture, would best serve the interests of the Owners.

Legal Proceedings by Trustee. If any Event of Default has occurred and is continuing, the Trustee may, and upon the written request of the Owners of twenty-five percent (25%) in aggregate principal amount of all Bonds then Outstanding, thereceipt of satisfactory indemnity pursuant to the Indenture, will, in its own name:

(a) By mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners, including the right to require the Issuer to enforce any rights under the Lease and to require the Issuer to carry out any other provisions of the Indenture for the benefit of the Owners and to perform its duties under the Act;

(b) Bring suit upon the Bonds;

(c) By action or suit in equity require the Issuer to account as if it were the trustee of an express trust for the Owners; and

(d) By action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners.

The Trustee will be entitled as a matter of right to the appointment of a receiver or receivers for the property securing the obligations under the Indenture, and of the revenues, income, and profit thereof, ex parte, and without notice, and the Issuer and Lessees consent to the appointment of such receiver upon the occurrence of an Event of Default. In the case of any receivership, insolvency, bankruptcy, reorganization, or other judicial proceedings affecting the Issuer or Lessees, the Trustee will be entitled to file such proofs of claims and other documents as may be necessary or advisable in order to have the claims of the Trustee and of the Owners allowed in such proceedings.

Notwithstanding any other provision in the Indenture or in the Leases, the Trustee will not be required to acquire possession of or take any action with respect to the respective Leased Property or other security under the Indenture which could cause it to be considered an “owner” or “operator” within the meaning of the Comprehensive Environmental Response Compensation and Liability Act of 1980, as amended from time to time, or which could result in personal liability, expense or loss under any other law dealing with environmental matters or hazardous substances. It is acknowledged and agreed that the Trustee has no authority to manage or operate the respective Leased Property, or any portion thereof, except as necessary to exercise remedies upon default.

Discontinuance of Proceedings by Trustee. If any proceeding commenced by the Trustee on account of any Event of Default is discontinued or is determined adversely to the Trustee, the Issuer, the Trustee and the Owners will be restored to their former positions and rights under the Indenture as though no such proceedings had been commenced.

Owners May Direct Proceedings. Subject to the Indenture, the Owners of a majority in aggregate principal amount of the Bonds Outstanding under the Indenture will have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings to be taken by the Trustee under the Indenture, provided that such direction will not be in conflict with any rule of law or with the Indenture or unduly prejudice the rights of minority Owners. In determining whether such conflict exists, the Trustee will be entitled to rely on an Opinion of Counsel.

Limitations on Actions by Owners. No Owner will have any right to pursue any remedy under the Indenture unless:

(a) the Trustee will have been given written notice of an Event of Default;

(b) the Owners of at least twenty-five percent (25%) in aggregate principal amount of all Bonds then Outstanding will have requested the Trustee, in writing, to exercise the powers granted in the Indenture or to pursue such remedy in its or their name or names;

(c) the Trustee will have been offered indemnity satisfactory to it against costs, expenses and liabilities;

(d) the Trustee will have failed to comply with such request within a reasonable time; and

(e) no direction inconsistent with such written request has been given to the Trustee by holders of a majority in principal amount of Outstanding Bonds.

Notwithstanding any provision of the Indenture, the obligation of the Issuer will be absolute and unconditional to pay under the Indenture, but solely from the Revenues and other funds pledged under the Indenture, the principal or redemption price of, and interest on, the Bonds to the respective Owners thereof on the respective due dates thereof, and nothing in the Indenture will affect, or impair the right of action, which is absolute and unconditional, of such Owners to enforce such payment.

Trustee May Enforce Rights Without Possession of Bonds. All rights under the Indenture and the Bonds may be enforced by the Trustee without the possession of any Bonds or the production thereof at the trial or other proceedings relative thereto, and any proceeding instituted by the Trustee will be brought in its name for the ratable benefit of the Owners of the Bonds.

Remedies Not Exclusive. No remedy conferred in the Indenture is intended to be exclusive of any other remedy or remedies, and each remedy is in addition to every other remedy given under the Indenture or now or thereafter existing at law or in equity or by statute.

Delays and Omissions Not to Impair Rights. No delays or omission in respect of exercising any right or power accruing upon any default will impair such right or power or be a waiver of such default, and every remedy given by the Indenture may be exercised from time to time and as often as may be deemed expedient.

Application of Funds. Anything in the Indenture to the contrary notwithstanding, if at any time the moneys in the applicable funds, accounts and sub-accounts are not sufficient to pay the interest on or the principal of the Bonds as the same become due and payable such moneys, together with any moneys then available or thereafter becoming available for such purposes, whether through the exercise of the remedies provided for in the Indenture or otherwise, will be applied as follows:

FIRST: to the payment of the fees, costs and expenses of the Trustee incurred in connection with an Event of Default, including the reasonable compensation and expenses of its agents, attorneys and counsel, to the payment of any expenses necessary in the opinion of the Trustee to protect the interests of the Owners and to the payment of any outstanding fees and expenses due to the Trustee;

SECOND: to the payment of the interest then due and payable on the entire principal amount of the Bonds, and, if the amount available will not be sufficient to pay in full all such interest then due and payable on each such Interest Payment Date, then to the payment thereof ratably, according to the amounts due thereon without any discrimination or preference; and

THIRD: to the payment of the unpaid principal amount of the Bonds which has become due and payable, with interest on the overdue principal and interest amounts of the unpaid Bonds at the rate or rates of interest then applicable to such Bonds if paid in accordance with their terms, and, if the amount available will not be sufficient to pay in full all the amounts due with respect to the Bonds on any date, together with such interest, then to the payment thereof ratably, according to the principal amount due on such date, without any discrimination or preference; and

THE TRUSTEE

Resignation of Trustee. The Trustee may at any time resign and be discharged of the trusts created by the Indenture by giving written notice of such resignation to the Issuer not less than 45 days before the date when it is to take effect. Such resignation will take effect only upon the appointment and acceptance of appointment of a successor trustee. If no successor Trustee will have been appointed and have accepted appointment within 45 days after the giving of notice of resignation as aforesaid, the resigning Trustee or any Owner (on behalf of himself and all other Owners) may petition any court of competent jurisdiction for the appointment of a successor Trustee.

Removal of Trustee. Any Trustee under the Indenture may be removed at any time by an instrument appointing a successor, and evidencing the acceptance of such successor, to the Co-Trustee so removed, executed by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding or (so long as the Issuer is not in default under the Indenture or the Lessee is not in default under the Lease) by the Issuer and filed with the Trustee and the Issuer.

Appointment of Successor Trustee. If the Trustee or any successor trustee resigns or is removed or dissolved, or if its property or business is taken under the control of any state or federal court or administrative body, the Issuer will appoint a successor. If the Issuer fails to make such appointment promptly, the Owners of a majority in aggregate principal amount of the Bonds then Outstanding may do so, with notice to the Issuer. Notwithstanding any other provision of the Indenture, no removal, resignation or termination of the Trustee will take effect until a successor will be appointed.

AMENDMENTS AND SUPPLEMENTS

Amendments and Supplements Without Owners' Consent. The Indenture may be amended or supplemented at any time and from time to time, without the consent of any Owners, by a supplemental indenture authorized by a resolution of the Issuer filed with the Trustee, for one or more of the following purposes:

(a) to add additional covenants of the Issuer or to surrender any right or power conferred in the Indenture upon the Issuer; or

(b) for any purpose not inconsistent with the terms of the Indenture or to cure any ambiguity or to correct or supplement any provision contained in the Indenture or in any supplemental indenture which may be defective or inconsistent with any other provision contained in the Indenture or in any indenture, or to make such other changes and amendments which will not materially adversely affect the interests of the Owners of the Bonds, as may be evidenced by an Opinion of Counsel; or

(c) to grant to or confer upon the Trustee for the benefit of the Owners any additional rights, remedies, powers, authority or security that may lawfully be granted to or conferred upon the Owners or the Trustee; or

(d) to evidence the appointment of a separate Trustee or a co-trustee or to evidence the appointment of a successor Trustee; or

(e) to comply with the requirements of the Trust Indenture Act of 1939 or the Code, as each is from time to time amended, or any other provision of applicable law; or

(f) to subject to the Indenture additional revenues, properties or collateral; or

(g) to provide for additional paying agents or authenticating agents in addition to the Trustee; or

(h) to make any changes or amendments requested by the Rating Agency as a condition to the issuance or maintenance of a rating; or

(i) to maintain the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation, the exemption of interest on the Bonds from State of California personal income taxes or to maintain the treatment of such interest with respect to the determination of an Owner's alternative minimum tax obligation.

The Rating Agency will be given notice of any amendment made pursuant to the Indenture.

Amendments With Owners' Consent. The Indenture may be amended from time to time, except with respect to (i) the principal, premium or interest payable upon any Bonds, (ii) the Interest Payment Dates, the date of maturity or the redemption of any Bonds and (iii) the Indenture, by a supplemental indenture approved by the Owners of a majority in aggregate principal amount of the Bonds then Outstanding. Amendments with respect to matters listed in clauses (i), (ii) or (iii) will be permitted only with the prior written consent of the Owners of one hundred percent (100%) of the Bonds Outstanding. Notice of any such amendment, and of any amendment effected pursuant to the Indenture, will be promptly given by the Issuer to any Rating Agency.

Amendment of Leases. A Lease may be amended in writing as may be mutually agreed by the Issuer and the respective Lessee, subject to the prior written consent of the Trustee; provided, that no such amendment which materially adversely affects the rights of the Owners will be effective unless it will have been consented to by the Owners of a majority of aggregate principal amount of Bonds Outstanding. At the reasonable request of the Trustee, the Issuer will provide an Opinion of Counsel regarding whether the proposed amendment materially/adversely affects the rights of the Owners.

The respective Leases and the rights and obligations of the Issuer and the Lessees thereunder may also be amended or supplemented by an amendment or supplement thereto which will become binding upon execution without the written consents of any Owners, but only to the extent permitted by law and only for any one or more of the following purposes --

(a) to add to the agreements, conditions, covenants and terms required by the Issuer or the Lessee to be observed or performed therein other agreements, conditions, covenants and terms thereafter to be observed or performed by the Issuer or the Lessees, or to surrender any right or power reserved therein to or conferred therein on the Issuer or the Lessees, and which in either case will not materially adversely affect the interests of the Owners;

(b) to make such provisions for the purpose of curing any ambiguity or of correcting, curing or supplementing any defective provision contained therein or in regard to questions arising under the Indenture which the Issuer or the Lessees may deem desirable or necessary and not inconsistent therewith, and to make any other amendments or changes which will not materially adversely affect the interest of the Owners;

(c) to effect a removal or substitution of property subject to the Lease in accordance with the provisions of the Lease; or

(d) to change the payment terms of the Lease provided that a certificate is delivered assuming that such change is made and demonstrating that the remaining Lease Payments after such change are sufficient to pay the principal and interest on the Bonds when due.

Notice of any such amendment will be promptly given by the Issuer to the Rating Agency.

No amendment to a Lease will be effective until the Trustee has received an opinion of Bond Counsel to the effect that such amendment (i) is authorized and in compliance with the Act and the Indenture; (ii) is a legal valid and binding obligation of the respective Lessee enforceable against the respective Lessee in accordance with its terms (subject to standard enforceability exceptions) and (iii) will not adversely affect the validity and enforceability of such Lease or the exclusion of interest on the Bonds from gross income for purposes of Federal income taxation.

DEFEASANCE

Defeasance.

(a) When principal or redemption price (as the case may be) of, and interest on, all Bonds issued under the Indenture allocable to a Lessee have been paid as provided in the Indenture, or provision has been made for payment of the same to such maturity or redemption date, together with such Lessee's allocable share of the compensation and expenses of the Trustee, and all other sums payable under the Indenture by the Issuer that are allocable to the such Lessee (including any rebate amount pursuant to the Indenture), the right, title and interest of the Trustee will thereupon cease and the Trustee, on demand of the Issuer or such Lessee, will release the applicable Lease and, if all Bonds issued under the Indenture have been paid as provided in the Indenture, the Indenture, and will execute such documents to evidence such release as may be reasonably required and prepared by the Issuer and the applicable Lessee and will turn over to the Issuer, the applicable Lessee or to such person, body or authority as may be entitled to receive the same all balances then held by it under the Indenture and thereunder with respect to such Lessee. If payment or provision for payment is made with respect to less than all of the Bonds allocable to a Lessee, the particular Bonds (or portions thereof) for which provision for payment will have been considered made will be determined by a verification report delivered to the Trustee, and thereupon the Trustee will take similar action for the release of the Indenture with respect to such Bonds.

(b) Provision for the payment of Bonds will be deemed to have been made when (i) the Trustee, as escrow agent, or such other escrow agent selected by the Issuer, pursuant to an escrow agreement by and between the applicable Lessee and such escrow agent, holds (A) moneys in an amount sufficient to make all payments specified above with respect to the Bonds to be no longer entitled to the lien of the Indenture, or (B) Government Obligations, maturing on or before the date or dates when the payments specified above will become due, the principal amount of which and the interest thereon, when due, is or will be, in the aggregate, in the opinion of an independent certified public accountant sufficient without reinvestment to make all such payments, or (C) any combination of such moneys and such Government Obligations the amounts of which and interest thereon, when due, are or will be, in the aggregate, in the opinion of an independent certified public accountant sufficient without reinvestment to make all such payments.

(c) Neither the Government Obligations nor the moneys deposited with the Trustee pursuant to the Indenture will be withdrawn or used for any purpose other than, and will be segregated and held in trust for, the payment of the principal or redemption price of, and interest on, said Bonds or portions thereof. Whenever moneys or Government Obligations will be deposited with the Trustee for the payment or redemption of Bonds more than sixty (60) days prior to the date that such Bonds are to mature or be redeemed, the Trustee will mail a notice stating that such moneys or obligations have been deposited and identifying the Bonds for the payment of which such moneys or obligations are being held, to all registered Owners of Bonds for the payment of which such moneys or Government Obligations are being held.

MISCELLANEOUS PROVISIONS

No Personal Recourse. No recourse will be had for any claim based on the Lease, the Indenture or the Bonds against any Member of the Authority (other than the respective District as the Lessee under the respective Lease) or any Board member, officer or employee, past, present or future, of the Authority or of any successor body as such, either directly or through the Authority or any such successor body, under any constitutional provision, statute or rule of law or by the enforcement of any assessment or penalty or otherwise and all such liability of any such Member, officer or employee as such is expressly waived and released as a condition of and in consideration for the execution of the Indenture and the issuance of any of the Bonds.

Interested Parties.

(a) Parties Interested in the Indenture. Nothing in the Indenture expressed or implied is intended or will be construed to confer upon, or to give grant to any person or entity, other than the Districts, the Trustee and the Owners of the Bonds, any right, remedy or claim under or by reason of the Indenture or any covenant, condition or stipulation of the Trust Indenture, and all covenants, stipulations, promises and agreements in the Indenture contained by and on behalf of the District will be for the sole and exclusive benefit of the District, the Authority, Trustee and the registered owners of the Bonds.

APPENDIX K

FORM OF CONTINUING DISCLOSURE CERTIFICATES

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed and delivered by the ____________ Community College District (the "District") in connection with the issuance by the California Community College Financing Authority (the "Authority") of its $8,255,000 Lease Revenue Refunding Bonds, Series 2010B for MiraCosta Community College District, Palomar Community College District, and Southwestern Community College District (the "Bonds"). The Bonds are being issued pursuant to a Trust Indenture, dated as of October 1, 2010 (the "Trust Indenture"), between the Authority and The Bank of New York Mellon Trust Company, N.A. (the "Trustee"). The District covenants as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Holders and Beneficial Owners of the Bonds and in order to assist the Participating Underwriters in complying with S.E.C. Rule 15c2-12(b)(5). The District acknowledges that the Authority has undertaken no responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Certificate and has no liability to any person, including any Holders and Beneficial Owners of the Bonds, with respect to the Rule.

SECTION 2. Definitions. The definitions set forth in the Trust Indenture apply to any capitalized term used in this Disclosure Certificate, unless such terms are otherwise defined in this Section 2 below:

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

"Beneficial Owner" shall mean any person which (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Bonds for federal income tax purposes.

"Disclosure Representative" shall mean the [________] or their designee, or such other officer or employee as the District shall designate in writing from time to time.

"Dissemination Agent" shall mean the District, acting in its capacity as Dissemination Agent hereunder, or any successor Dissemination Agent designated in writing by the District.

"Holders" shall mean either the registered owners of the Bonds, or, if the Bonds are registered in the name of The Depository Trust Company or another recognized depository, any applicable participant in its depository system.

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

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

"Repository" shall mean the Municipal Securities Rulemaking Board, which can be found at http://emma.msrb.org/, or any other repository of disclosure information that may be designated by the Securities and Exchange Commission as such for purposes of the Rule in the future.

"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.

SECTION 3. Provision of Annual Reports.

(a) The District shall, beginning with the fiscal year ending 2009-10, prepare an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate and shall (or shall cause the Dissemination Agent, if applicable, to) provide such Annual Report to the Repository not later than [nine months][270 days] after the end of the District's fiscal year. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Certificate; *provided* that the audited financial statements of the District may be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District's fiscal year changes, the District shall give notice of such change in the same manner as for a Listed Event under Section 5(a).

(b) Not later than fifteen (15) Business Days prior to the date specified in subsection (a) for providing the Annual Report to the Repository, the District shall provide the Annual Report to the Dissemination Agent (if other than the District).

(c) If the District is unable to provide the Repository an Annual Report as required in subsection (a), the District shall send a notice to the Repository in substantially the form attached as Exhibit A hereto.

(d) The Dissemination Agent shall file a report with the District certifying that the Annual Report has been provided pursuant to this Disclosure Certificate, stating the date it was provided to the Repository.

SECTION 4. Content and Form of Annual Reports.

(a) The District's Annual Report shall contain or incorporate by reference the following:

(i) The District's audited financial statements prepared in accordance with generally accepted accounting principles in effect from time to time and

(ii) Material financial information and operating data with respect to the District of the type included in the Official Statement in the following categories (to the extent not included in the District's audited financial statements):

(A) State funding received by the District for the last completed fiscal year;

(B) FTES of the District for the last completed fiscal year;

(C) outstanding District indebtedness; and

(D) summary financial information on revenues, expenditures and fund balances for the District's general fund reflecting adopted budget for the current fiscal year.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues with respect to which the District is an "obligated person" (as defined by the Rule), which have been submitted to the Repository or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

(b) The Annual Report shall be filed in an electronic format accompanied by identifying information prescribed by the Municipal Securities Rulemaking Board.

SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if the District determines that such event is material under federal securities law:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) modifications to rights of Bondholders;

(iv) optional, contingent or unscheduled bond calls;

(v) defeasances;

(vi) rating changes;

(vii) adverse tax opinions or events adversely affecting the tax-exempt status of the Bonds;

(viii) unscheduled draws on debt service reserves reflecting financial difficulties;

(xi) unscheduled draws on credit enhancements reflecting financial difficulties;

(x) substitution of the provider of any municipal bond insurance, or any failure by any insurer to perform on any municipal bond insurance policy; and

(xi) release, substitution or sale of property securing repayment of the Bonds.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event the District shall as soon as possible determine if such event would be material under applicable federal securities laws.

(c) If the District has determined that knowledge of the occurrence of a Listed Event would be material under federal securities laws, the District shall promptly file such notice with the Repository. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(iv) and (v) shall 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 Trust Indenture.

SECTION 6. Termination of Reporting Obligation. The obligations of the District under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Bonds.

SECTION 7. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent shall not be responsible in any manner for the content of any notice or report prepared by the District pursuant to this Disclosure Certificate.

SECTION 8. Amendment. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate provided the following conditions are satisfied:

(a) the amendment is 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 the District or type of business conducted; and

(b) this Disclosure Certificate, as amended, 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.

(c) the amendment does not materially impair the interests of Bondholders, as determined by nationally recognized bond counsel; and

(d) in the event of any amendment of this Disclosure Certificate, the District shall describe such amendment in the next Annual Report, and shall include, as applicable, a narrative explanation of the reason for the amendment 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 District. 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(c), 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 Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall not have any obligation under this Disclosure Certificate to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 10. Default. In the event of a failure of the District or the Dissemination Agent, if applicable, to comply with any provision of this Disclosure Certificate 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 District or the Authority or the Dissemination Agent (if applicable), as the case may be, to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Indenture, and the sole remedy under this Disclosure Certificate in the event of any failure of the District or the Authority to comply with this Disclosure Certificate shall be an action to compel substantial performance.

SECTION 11. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent (if one is appointed by the District) shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which they may incur arising out of the disclosure of information pursuant to this Disclosure Certificate or out of or in the exercise or performance of their 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 gross negligence or willful misconduct of the Dissemination Agent. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent, termination of Disclosure Certificate and payment of the Bonds. The Dissemination Agent (if not the District) shall not have any responsibility or liability for the failure to report any Listed Event or any financial information or as to which the District did not prepare a report in a format suitable for filing with the Repository.

SECTION 12. Notices. Any notices or communications to or among any of the parties to this Disclosure Certificate may be given as follows:

To the District: [District Address]

To the Authority: Secretary
California Community College Financing Authority
2017 "O" Street
Sacramento, CA 95814

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 Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriters and Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 14. Signature. This Disclosure Certificate has been executed by the undersigned on the date hereof, and such signature binds the District to the undertaking herein provided.

Dated: October 1, 2010

____________ COMMUNITY COLLEGE DISTRICT

By: ____

EXHIBIT A

NOTICE TO REPOSITORIES OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party:	____________ Community College District (the "District")
Name of Bond Issue:	$8,255,000 California Community College Financing Authority Lease Revenue Refunding Bonds, Series 2010B
Date of Delivery:	October 1, 2010

NOTICE IS HEREBY GIVEN that the District has not provided an Annual Report with respect to the above-named Bonds as required by Section 3 of the Continuing Disclosure Certificate with respect to the Bonds. The District anticipates that the Annual Report will be filed by _____________.

Dated: _______________

____________ COMMUNITY COLLEGE DISTRICT

By: [form only; no signature required]

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APPENDIX L

BOOK-ENTRY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy or completeness thereof. The Authority cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Official Statement. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The requirement for physical delivery of Bonds in connection with a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Trustee's DTC account.

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

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

The foregoing information concerning DTC and DTC's book-entry system has been obtained from sources that the Authority believes to be reliable, but the Authority takes no responsibility for the accuracy thereof.

BENEFICIAL OWNERS WILL NOT RECEIVE PHYSICAL DELIVERY OF BONDS AND WILL NOT BE RECOGNIZED BY THE TRUSTEE AS OWNERS THEREOF UNDER THE TERMS OF THE BOARD RESOLUTION, AND BENEFICIAL OWNERS WILL BE PERMITTED TO EXERCISE THE RIGHTS OF OWNERS ONLY INDIRECTLY THROUGH DTC AND THE PARTICIPANTS.

THE AUTHORITY WILL HAVE NO RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO DTC PARTICIPANTS OR THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS.