

In the opinion of Greenberg Traurig, LLP, Santa Monica, California, Special Counsel, subject, however, to certain qualifications described herein, under existing law, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants set forth in the documents and instruments pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended (the “Code”), as described herein, the portion of each Lease Payment designated as and comprising interest and received by the owners of the Certificates is excluded from gross income of the owners thereof pursuant to section 103 of the Code for federal income tax and purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; although, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain alternative minimum tax and environmental tax liabilities on income and earnings. In the further opinion of Special Counsel, such interest is exempt from personal income taxes imposed by the State of California. See “TAX MATTERS” herein.

\$40,280,000

CERTIFICATES OF PARTICIPATION

(2008 Conversion of 2004 Variable Rate Certificates)

Evidencing Direct, Undivided Fractional Interests of the Owners Thereof

In Lease Payments to be Made by the

KERN COMMUNITY COLLEGE DISTRICT

As the Rental for Certain Property Pursuant to a Lease Agreement with the

KERN COMMUNITY COLLEGE DISTRICT PUBLIC FACILITIES CORPORATION

Dated: Date of Delivery

Due: March 1, as shown on inside cover page

THIS COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT A SUMMARY OF THIS ISSUE. INVESTORS ARE ADVISED TO READ THE ENTIRE REOFFERING MEMORANDUM TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING AN INFORMED INVESTMENT DECISION.

This is a reoffering of the above-captioned Kern Community College District (the “District”) Certificates of Participation (the “Certificates”) that were initially offered (the “Original Certificates”) and executed pursuant to a Trust Agreement dated as of March 1, 2004 (the “Original Trust Agreement”), by and among the District, the Kern Community College District Public Facilities Corporation (the “Corporation”) and Deutsche Bank National Trust Company, Los Angeles, California, as trustee (the “Trustee”). In connection with the interest rate conversion described herein (the “Conversion”), the Original Trust Agreement will be amended and restated by the Amended and Restated Trust Agreement, dated as of June 1, 2008 (together with the Original Trust Agreement and the amendments and supplements hereto, the “Trust Agreement”), by and among the District, the Corporation and the Trustee. The Certificates were originally executed and delivered for the principal purpose of financing the acquisition renovation, modernization, furnishing and equipping of certain District facilities (collectively, the “Improvements”). See “THE FINANCING PLAN” herein.

The Original Certificates were initially executed and delivered as auction rate securities on March 11, 2004 in the aggregate principal amount of \$39,950,000 with a final maturity date of March 1, 2034, with interest rates correspondingly changing from time to time in conjunction with the variable auction rate market. In connection with the reoffering of the Certificates pursuant to this Reoffering Memorandum, the interest rates applicable to the Certificates are being fixed to their respective maturities at their respective rates shown on the inside front cover page hereof. Such interest will be payable on September 1 and March 1 of each year, commencing September 1, 2008.

Upon Conversion, the Certificates represent direct, undivided fractional interests of the owners thereof in the lease payments (the “Lease Payments”) to be made by the District to the Corporation for the use and occupancy of the Site and Facilities as described in the Lease Agreement, dated as of March 1, 2004, by and between the Corporation and the District (the “Original Lease Agreement”), as amended by the Amended Lease Agreement, dated as of June 1, 2008 (together with the Original Lease Agreement and the amendments and supplements hereto, the “Lease Agreement”), by and between the District and the Corporation. Pursuant to the Lease Agreement, the Corporation will lease to the District the Site and Facilities, as more particularly set forth in the Lease Agreement (the “Site and Facilities”). Prior to Conversion, proceeds of the Certificates, in an amount necessary to convert the Original Certificates as set forth herein, will be deposited in a designated escrow fund and held in escrow as collateral for the Certificates until the Conversion Date. See “THE CERTIFICATES” and “THE FINANCING PLAN” herein.

The Certificates are being executed and delivered in denominations of \$5,000 and integral multiples thereof in book-entry form only and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the Certificates will not receive certificates representing their beneficial ownership thereof but will receive credit balances on the books of their respective nominees. The principal of and interest evidenced by the Certificates are payable by the Trustee to Cede & Co.; and such interest and principal payments are to be disbursed to the beneficial owners of the Certificates through their nominees. See “BOOK-ENTRY ONLY SYSTEM” herein.

The Certificates are subject to optional, mandatory and special prepayment prior to their respective maturities, in accordance with the terms of the Trust Agreement. See “PREPAYMENT PROVISIONS” herein.

The scheduled payment of principal of and interest on the Certificates when due is guaranteed under an financial guaranty insurance policy issued by Ambac Assurance Corporation simultaneously with the original delivery of the Certificates. See “THE CERTIFICATE INSURANCE POLICY” herein.

Ambac

The District is, subject to abatement as described herein, legally required under the Lease Agreement to make Lease Payments in an amount sufficient to pay, when due, the principal and interest with respect to Certificates in each year in consideration of the use and occupancy of the Sites and Facilities from any source of legally available funds. The District has covenanted under the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary annual appropriations therefore.

MATURITY SCHEDULE

(See inside front cover page)

THE OBLIGATION OF THE DISTRICT TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT HAS LEVIED OR PLEDGED ANY FORM OF TAXATION OR OTHER FAITH AND CREDIT OF THE DISTRICT. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO PAY LEASE PAYMENTS CONSTITUTES A DEBT OF THE DISTRICT, THE STATE OF CALIFORNIA OR ANY OF ITS POLITICAL SUBDIVISIONS WITHIN THE MEANING OF THE CONSTITUTION OF THE STATE OF CALIFORNIA OR OTHERWISE.

The Certificates are reoffered, when, as and if executed, delivered to and received by the Underwriter, subject to approval of legality by Greenberg Traurig, LLP, Santa Monica, California, Special Counsel. Certain legal matters will be passed upon for the District and the Corporation by their general counsel, respectively. Certain legal matters will be passed upon for the District by its Disclosure Counsel, The Weist Law Firm, A Professional Law Corporation, Scotts Valley, California. It is anticipated that the Certificates in book-entry form, will be available for delivery in New York, New York on or about June 5, 2008 for deposit with DTC.



MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES AND YIELDS

\$40,280,000

CERTIFICATES OF PARTICIPATION

(2008 Conversion of 2004 Variable Rate Certificates)

Evidencing Direct, Undivided Fractional Interests of the Owners Thereof

In Lease Payments to be Made by the

KERN COMMUNITY COLLEGE DISTRICT

As the Rental for Certain Property Pursuant to a Lease Agreement with the

KERN COMMUNITY COLLEGE DISTRICT PUBLIC FACILITIES CORPORATION

MATURITY SCHEDULE

\$24,495,000

Serial Maturities

Maturity Date (March 1)	Principal Amount	Interest Rate	Yield	CUSIP[†]
2009	675,000	3.500%	2.300%	492245BL8
2010	935,000	3.500%	2.750%	492245BM6
2011	970,000	3.500%	3.150%	492245BN4
2012	1,005,000	3.500%	3.400%	492245BP9
2013	1,040,000	3.750%	3.500%	492245BQ7
2014	1,080,000	3.750%	3.650%	492245BR5
2015	1,120,000	4.000%	3.800%	492245BS3
2016	1,165,000	4.000%	3.950%	492245BT1
2017	1,210,000	4.000%	4.100%	492245BU8
2018	1,260,000	4.000%	4.200%	492245BV6
2019	1,310,000	4.000%	4.350%	492245BW4
2020	1,360,000	4.125%	4.450%	492245BX2
2021	1,420,000	4.250%	4.550%	492245BY0
2022	1,480,000	4.500%	4.600%	492245BZ7
2023	1,545,000	4.500%	4.650%	492245CA1
2024	1,615,000	4.625%	4.750%	492245CB9
2025	1,690,000	4.625%	4.800%	492245CC7
2026	1,765,000	4.750%	4.850%	492245CD5
2027	1,850,000	4.750%	4.900%	492245CE3

\$15,785,000 5.000% Term Certificate Due March 1, 2034 – Yield 5.100% CUSIP[†] No. 4992245CG8

[†]CUSIP® A registered trademark of the American Bankers Association. Copyright© 2008 Standard & Poor's, a Division of The McGraw-Hill Companies, Inc. All rights reserved. CUSIP® data herein is provided by Standard & Poor's CUSIP Service Bureau. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service Bureau. None of the District, the Corporation or the Underwriter take any responsibility for the accuracy of such CUSIP numbers. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Certificates as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity.

In making an investment decision investors must rely on their own examination of the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, neither the foregoing authorities nor Special Counsel or Disclosure Counsel have confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

This Reoffering Memorandum does not constitute an offer to sell the Certificates or the solicitation of an offer to buy, nor shall there be any sale of the Certificates by any person in any state or other jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale in such state or jurisdiction. No dealer, broker, salesman or any other person has been authorized by the Kern Community College District (the "District") or Underwriter to give any information or to make any representation other than those contained herein in connection with the offering of the Certificates and, if given or made, such information or representation must not be relied upon as having been authorized by the District or Underwriter.

The Execution and delivery of the Certificates has not been registered under the Securities Act of 1933 in reliance upon an exemption thereunder. This Reoffering Memorandum is not to be construed as a contract with the purchasers of the Certificates. Statements contained in this Reoffering Memorandum which involve estimates, projections, forecasts or matters of opinion, whether or not expressly so described herein are intended solely as such and are not to be construed as representations of fact.

The information set forth herein relating to book-entry and to the Depository Trust Company ("DTC"), New York, New York has been obtained from DTC and the information herein relating to the Certificate Insurer and to the Certificate Insurance Policy has been obtained from the Insurer. Such information is believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as representation by the District, the Corporation or respective counsel. All other information set forth herein has been furnished by the District and other sources believed to be reliable. Such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter, its counsel or Special Counsel.

When used in this Reoffering Memorandum and in any continuing disclosure by the District in any press release and in any oral statement made with the approval of an authorized officer of the District or any other entity described or referenced in this Reoffering Memorandum, the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," "forecast," "expect," "intend," and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Reoffering Memorandum nor any sale of the Certificates made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District, or DTC since the date hereof. Further, all summaries contained herein of the Trust Agreement, the Lease Agreement and other related documents are expressly made subject to the provisions of such documents and instruments and do not purport to be complete, comprehensive or definitive summaries of any or all of such provisions.

This Reoffering Memorandum is submitted in connection with the sale of the Certificates and may not be reproduced or used, in whole or in part, for any other purpose.

IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES OFFERED HEREBY AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITER MAY OFFER AND SELL THE CERTIFICATES TO CERTAIN DEALERS, INSTITUTIONAL INVESTORS AND OTHERS AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES STATED ON THE COVER PAGE THEREOF AND SAID PUBLIC OFFERING PRICES MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER.

KERN COMMUNITY COLLEGE DISTRICT

BOARD OF TRUSTEES

Kay S. Meek, *President*
Stuart O. Witt, *Vice President*
John A. Rodgers, *Clerk of the Board*
Rose Marie Bans, *Board Member*
Dennis L. Beebe, *Board Member*
John Corkins, *Board Member*
Pauline F. Larwood, *Board Member*

DISTRICT ADMINISTRATION

Sandra V. Serrano, *Chancellor*
Thomas J. Burke, *Chief Financial Officer*
Victor Collins, *Interim Vice Chancellor, Human Resources*
Greg Chamberlain, *Vice Chancellor, Educational Services*

PROFESSIONAL SERVICES

Underwriter

Nollenberger Capital Partners Inc.
San Francisco, California

Special Counsel

Greenberg Traurig, LLP
Santa Monica, California

Disclosure Counsel

The Weist Law Firm
Scotts Valley, California

Trustee

Deutsche Bank National Trust Company
Los Angeles, California

TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTORY STATEMENT	1
INTRODUCTION	2
THE CERTIFICATES	2
PURPOSE	2
THE CONVERSION	2
SECURITY	3
THE PROJECT	3
FORM OF CERTIFICATES AND DENOMINATION	4
REGISTRATION, TRANSFERS AND EXCHANGES	4
FINANCIAL GUARANTY INSURANCE POLICY	4
DESCRIPTION OF THE CERTIFICATES	4
PREPAYMENT	5
CONTINUING DISCLOSURE	5
LIMITED OBLIGATIONS OF THE DISTRICT	5
OFFERING AND DELIVERY OF THE CERTIFICATES	5
THE DISTRICT	6
THE CORPORATION	6
ASSIGNMENT AGREEMENT	6
LEASE PAYMENTS	7
CERTIFICATE RESERVE FUND	7
PUBLIC LIABILITY AND DAMAGE INSURANCE	7
FIRE AND EXTENDED COVERAGE INSURANCE	8
RENTAL INTERRUPTION INSURANCE	8
FORWARD LOOKING STATEMENTS	8
FINANCIAL INFORMATION	9
THE FINANCING PLAN	9
THE ORIGINAL CERTIFICATES	9
THE FIXED RATE CONVERSION	9
ESTIMATED SOURCES AND USES OF FUNDS	10
THE PROJECT	10
IN GENERAL	10
THE SITE	11
SUBSTITUTION OF SITE OR FACILITIES	11
RELEASE OF SITE	11
PURPOSE OF PROJECT	11
THE CERTIFICATES	11
GENERAL	11
SOURCES OF PAYMENT FOR THE CERTIFICATES	12
ASSIGNMENT OF RIGHTS IN LEASE AGREEMENT	13
BUDGET AND APPROPRIATION OF LEASE PAYMENTS	13
TRUSTEE, CERTIFICATE REGISTRAR	13
DEFEASANCE	14
TRANSFER AND EXCHANGE OF CERTIFICATES	14
MUTILATED, LOST, DESTROYED, OR STOLEN CERTIFICATES	15
FIRE AND EXTENDED COVERAGE INSURANCE	15
RENTAL INTERRUPTION INSURANCE	16
EMINENT DOMAIN PROCEEDS	16

TABLE OF CONTENTS

	<u>Page</u>
REENTERING AND RELETTING.....	16
PREPAYMENT PROVISIONS.....	17
OPTIONAL REDEMPTION.....	17
EXTRAORDINARY PREPAYMENT	17
MANDATORY SINKING FUND PREPAYMENT	17
SELECTION OF CERTIFICATES FOR REDEMPTION	18
NOTICE OF REDEMPTION	18
EFFECT OF REDEMPTION	19
LEASE PAYMENT FUND AND CERTIFICATE RESERVE FUND.....	19
THE LEASE PAYMENT FUND	19
APPLICATION OF MONEYS.....	19
CERTIFICATE RESERVE FUND	20
BOOK-ENTRY ONLY SYSTEM	21
GENERAL	21
LIMITED PURPOSE TRUST COMPANY	21
THE CERTIFICATE INSURANCE POLICY	23
PAYMENT PURSUANT TO CERTIFICATE INSURANCE POLICY	23
THE CERTIFICATE INSURER.....	25
AVAILABLE INFORMATION.....	25
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE	26
RISK FACTORS	27
FINANCIAL CONDITION OF THE DISTRICT	27
SECURITY FOR THE CERTIFICATES; LIMITED OBLIGATION OF THE DISTRICT	27
NO LIMITATION ON INCURRING ADDITIONAL OBLIGATIONS	28
ABATEMENT	28
LIMITED RECOURSE ON DEFAULT.....	28
GEOLOGIC, TOPOGRAPHIC AND CLIMATE CONDITIONS	29
HAZARDOUS SUBSTANCES	29
SUBSTITUTION OR RELEASE OF PROPERTY	30
CALIFORNIA ECONOMY	30
LOSS OF TAX EXEMPTION	30
PROPOSED TAX LEGISLATION	31
INSURANCE	31
DTC-BENEFICIAL OWNERS.....	31
LIMITATIONS OF REMEDIES.....	31
PREPAYMENT PROVISION	32
UNCONVENTIONAL MORTGAGE STRUCTURES	32
OTHER RISKS	32
THE CORPORATION	32
THE DISTRICT	33
GENERAL INFORMATION	33
THE BOARD OF TRUSTEES.....	33
ADMINISTRATION	34
STATE FUNDING OF EDUCATION	34
ENROLLMENT	34

TABLE OF CONTENTS

	<u>Page</u>
EMPLOYEE RELATIONS	35
STATE TEACHERS' RETIREMENT SYSTEM (STRS)	35
Plan Description	35
Funding Policy	36
Annual Pension Cost	36
CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)	37
Plan Description	37
Funding Policy	37
Annual Pension Cost	37
POST-EMPLOYMENT BENEFITS	37
DISTRICT FINANCIAL INFORMATION	38
DISTRICT FINANCIAL STATEMENTS	38
DISTRICT BUDGET	38
ACCOUNTING PRACTICES	38
SUMMARY OF REVENUES, EXPENDITURES AND FUND BALANCES	40
REVENUE SOURCES	42
FUNDING OF DISTRICT OPERATIONS	42
General	42
Additional Revenues	42
REVENUE LIMITATIONS	43
AD VALOREM PROPERTY TAXATION	43
PARCELS BY LAND USE	45
LARGEST TAXPAYERS	45
DISTRICT DEBT STRUCTURE	46
Long-Term Debt Summary	46
FISCAL ACCOUNTABILITY	47
DIRECT AND OVERLAPPING BONDED DEBT	47
ALTERNATIVE METHOD OF THE APPORTIONMENT – "TEETER PLAN"	50
CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING	50
DISTRICT REVENUES AND APPROPRIATIONS	50
ARTICLE XIII A	50
COURT CHALLENGES TO ARTICLE XIII A	51
LEGISLATION IMPLEMENTING ARTICLE XII A	51
STATE LOTTERY-PROPOSITION 37	52
PROPOSITION 62	52
ARTICLE XIII B	52
AMENDMENTS TO ARTICLE XIII B	53
ARTICLE XIII C AND ARTICLE XIII D	54
UNITARY PROPERTY	54
PROPOSITIONS 98 AND 111	55
PROPOSITION 227	57
PROPOSITION 39	57
PROPOSITION 1A	58
KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2006	58
K-12 School Facilities	58
Higher Education Facilities	58
FUTURE INITIATIVES	59
FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA	59

TABLE OF CONTENTS

	<u>Page</u>
MAJOR REVENUES	59
BUDGET PROCEDURES.....	60
PROPOSITION 98	61
STATE ASSISTANCE AND RECENT STATE BUDGETS	62
The Budget Process:.....	62
Recent State Budgets:	63
Future Budgets:	64
APPROVAL OF LEGAL PROCEEDINGS.....	64
ABSENCE OF MATERIAL LITIGATION.....	64
ENFORCEABILITY OF REMEDIES	65
TAX MATTERS.....	65
FINANCIAL REPORT.....	65
RATINGS.....	66
CONTINUING DISCLOSURE	66
UNDERWRITER.....	67
MISCELLANEOUS.....	67

APPENDICES

APPENDIX A:	AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006-2007.....	A-1
APPENDIX B:	SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS	B-1
APPENDIX C:	FORM OF SPECIAL COUNSEL OPINION.....	C-1
APPENDIX D:	FORM OF CONTINUING DISCLOSURE AGREEMENT.....	D-1
APPENDIX E:	SPECIMEN CERTIFICATE INSURANCE POLICY.....	E-1

\$40,280,000
CERTIFICATES OF PARTICIPATION
(2008 Conversion of 2004 Variable Rate Certificates)
Evidencing Direct, Undivided Fractional Interests of the Owners Thereof
In Lease Payments to be Made by the
KERN COMMUNITY COLLEGE DISTRICT
As the Rental for Certain Property Pursuant to a Lease Agreement with the
KERN COMMUNITY COLLEGE DISTRICT PUBLIC FACILITIES CORPORATION

INTRODUCTORY STATEMENT

The summaries or references to the Trust Agreement, the Lease Agreement, the Site Lease and other documents, agreements and statutes referred to herein (the “Principal Legal Documents”), and the description of the Certificates included in this Reoffering Memorandum, do not purport to be comprehensive or definitive, and such summaries, references and descriptions are qualified in their entirety by reference to each such document or statute. All capitalized terms used in this Reoffering Memorandum (unless otherwise defined herein) shall have the meanings set forth in the Principal Legal Documents, some of which are summarized in “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – Certain Definitions.”

This Reoffering Memorandum, which includes the cover page and the appendices hereto (the “Reoffering Memorandum”), has been prepared under the direction of the Kern Community College District (Formerly known as Kern Joint Junior College District) (the “District”) and provides certain information concerning the execution and delivery of the above-captioned \$40,280,000 Kern Community College District, Certificates of Participation (2008 Conversion of 2004 Variable Rate Certificates) (the “Certificates”). Certain information regarding the Certificates has been provided directly by the District and is believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as representation by the District, the Corporation or respective counsel. All other information set forth herein has been furnished by other sources believed by the District to be reliable; however, such information is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter, its counsel or Special Counsel.

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

The following Introduction does not purport to be complete, but rather is intended only as a brief summary of certain terms of the Certificates being offered and a brief description of the Reoffering Memorandum. All statements contained in the following Introduction are qualified in their entirety by more complete and detailed information contained in the entire Reoffering Memorandum, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Reoffering Memorandum. The sale and delivery of the Certificates to potential investors is made only by means of the entire Reoffering Memorandum.

INTRODUCTION

THE CERTIFICATES

The Original Certificates were executed and delivered in book-entry only form pursuant to a Trust Agreement dated as of March 1, 2004 (the “Original Trust Agreement”), by and among the District, the Kern Community College District Public Facilities Corporation (the “Corporation”) and Deutsche Bank National Trust Company, Los Angeles, California, as trustee (the “Trustee”). In connection with the interest rate conversion described herein, the Original Trust Agreement will be amended and restated by the Amended and Restated Trust Agreement, dated as of June 1, 2008 (together with the Original Trust Agreement and the amendments, supplements and restatements thereto, collectively the “Trust Agreement”). The Trust Agreement was authorized by District Resolution, adopted on May 8, 2008. See “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS – The Trust Agreement” herein.

PURPOSE

The Certificates are being reoffered to finance the conversion (as described below) of the District’s \$39,950,000 (2004 Capital Improvements Project), Certificates of Participation originally executed and delivered on March 11, 2004 (the “Original Certificates”), as originally described in the official statement relating thereto, dated March 11, 2004 (the “Original Official Statement”). The Original Certificates were executed and delivered primarily to finance certain previous improvements to the District and to acquire and construct various additions, betterments, extensions and improvements related thereto (collectively, the “Improvements”) as further described under the caption “THE FINANCING PLAN” herein. Proceeds derived from the sale of the Original Certificates were also used: (i) to obtain an insurance policy (the “Certificate Insurance Policy”) issued by Ambac Assurance Corporation (the “Certificate Insurer”) guaranteeing the scheduled payments of principal of and interest with respect to the Original Certificates (including the Certificates), (ii) to finance a reserve fund, and (iii) to pay the costs of executing and delivering the Certificates. See “THE FINANCING PLAN” herein.

THE CONVERSION

The Original Certificates were initially executed and delivered at a Dutch Auction Rate, bearing variable rates of interest established in accordance with certain Dutch Auction Procedures set forth in the Original Trust Agreement (the “Dutch Auction Mode”). The Certificates are primarily being reoffered to finance the conversion of the Original Certificates from a Dutch Auction Mode to a Long Term Rate (as defined in the Original Trust Agreement), resulting in the interest rate applicable to the Certificates becoming fixed to the respective maturity dates of the Certificates at the interest rates indicated on the inside front cover page hereof, as more specifically set forth in the Trust Agreement (the “Conversion”).

In accordance with the Original Trust Agreement, all Original Certificates, whether or not tendered for purchase on or prior to the Conversion, will be deemed purchased on the Conversion Date at a price of one hundred percent (100%) of the principal amount thereof, plus accrued and unpaid interest to such date. See “THE FINANCING PLAN” herein.

SECURITY

Upon Conversion, each Certificate represents the direct, undivided fractional interests of the Owners in the Lease Payments to be made by the District under the Lease Agreement. Prior to Conversion, a portion of the proceeds of the Certificates, in an amount necessary to convert the Original Certificates in full on the Conversion Date, will be deposited with the Trustee and invested in strict accordance with the Conversion Fund Escrow Agreement (as defined in the Trust Agreement), and will be held in trust as collateral security for the Certificates until the Conversion Date, all as specifically set forth in the Trust Agreement. See “THE FINANCING PLAN” and “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS” herein.

The Corporation, pursuant to the Assignment Agreement, will assign substantially all of its rights under the Lease Agreement, including its right to receive Lease Payments from the District as well as its right to enforce the Lease Agreement, to the Trustee for the benefit of the registered owners of the Certificates.

The District is required under the Lease Agreement (as described below), subject to abatement as described in the Lease Agreement, to make Lease Payments (as described below) in each year in consideration for the use and occupancy of the Project (as described below) from any source of legally available funds in an amount sufficient to pay, when due, the annual principal, prepayment price (expressed as a percentage of the principal amount of the Certificates to be prepaid), and interest with respect to the Certificates. See “RISK FACTORS – Abatement” herein.

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

THE PROJECT

Each Certificate represents the direct, undivided fractional interest of the registered owner thereof (each an “Owner” or “Holder” and collectively the “Owners” or “Holders”) in Lease Payments (the “Lease Payments”) to be made by the District, as rental for (i) the use and occupancy of a certain District site (the “Site”) described in the Site Lease (the “Site Lease”), dated as of March 1, 2004, by and between the District and the Corporation, (ii) the use and occupancy of a certain facilities presently existing on the Site (the “Existing Facilities”), and (iii) the use and occupancy of the portion of the Improvements located on the Site (hereafter referred to as the “Facilities”), as described in the Lease Agreement, dated as of March 1, 2004 (the “Original Lease Agreement”), by and between the District and the Corporation (collectively, the Site, the Existing Facilities and the Facilities are referred to herein as the “Project”). In connection with the interest rate conversion described herein, the Original Lease Agreement will be amended and supplemented by the Amended Lease Agreement, dated as of June 1, 2008 (together with the Original Lease Agreement and the amendments and supplements hereto, the “Lease Agreement”), by and between the District and the Corporation. See “THE FINANCING PLAN” and “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS” herein.

FORM OF CERTIFICATES AND DENOMINATION

The Certificates are being executed and delivered in denominations of \$5,000 and integral multiples thereof in book-entry form only and, when executed and delivered, will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York. Purchasers of the Certificates will not receive certificates representing their beneficial ownership thereof but will receive credit balances on the books of their respective nominees. The principal of and interest evidenced by the Certificates are payable by the Trustee to Cede & Co.; and such interest and principal payments are to be disbursed to the beneficial owners of the Certificates through their nominees. See “BOOK-ENTRY ONLY SYSTEM” herein.

REGISTRATION, TRANSFERS AND EXCHANGES

The Certificates will be executed and delivered as fully registered bonds, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), or such other name as may be requested by an authorized representative of DTC and will be available to actual purchasers of the Certificates (the “Beneficial Owners”) in the denominations set forth above, 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 Certificates. In the event that the Book-Entry Only system described herein is no longer used with respect to the Certificates, the Certificates will be registered and transferred in accordance with the Trust Agreement. See “BOOK-ENTRY ONLY SYSTEM” herein.

FINANCIAL GUARANTY INSURANCE POLICY

The scheduled payment of principal of and interest on the Certificates when due is guaranteed under a financial guaranty insurance policy (the “Certificate Insurance Policy”) issued by Ambac Assurance Corporation (the “Insurer” or the “Certificate Insurer”) simultaneously with the original delivery of the Certificates. See “RISK FACTORS – Ambac and the Certificate Insurance Policy” and “APPENDIX E – SPECIMEN CERTIFICATE INSURANCE POLICY” herein. The Certificate Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding this Official Statement other than the information supplied by the Certificate Insurer and presented under the heading “THE CERTIFICATE INSURANCE POLICY.”

DESCRIPTION OF THE CERTIFICATES

The Certificates are being executed and delivered in denominations of \$5,000 or any integral multiple thereof. Interest will accrue on the principal components of each Certificate at the applicable interest rate (as set forth on the inside front cover page hereof) from the date of original delivery thereof until its date of maturity or prior prepayment, with interest becoming payable on each September 1 and March 1, commencing September 1, 2008. The Certificates are subject to prepayment as described in this Official Statement. See “THE CERTIFICATES” herein.

The Certificates evidence fractional and undivided interests in the right to receive Lease Payments and prepayments thereof to be made by the District to the Corporation under the Lease. The Lease Payments are designed to pay, when due, the principal and interest with respect to the Certificates. The District has covenanted in the Lease that it will take such action as may be necessary to include the Lease

Payments and other payments due under the Lease in its annual budgets and to make the necessary annual appropriations therefor. The District's obligation to make Lease Payments is subject to abatement in the event of the taking of, damage to or loss of use and possession of the Property. See "RISK FACTORS – Abatement" herein

PREPAYMENT

The Certificates will be subject to optional and mandatory prepayment, in whole or in part, prior to their stated maturity as set forth herein under the section entitled "PREPAYMENT PROVISIONS."

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the Owners and beneficial owners of the Certificates to provide, or cause to be provided, certain financial information and operating data relating to the District by not later than nine (9) months (i.e., no later than March, 31st) following the end of the District's fiscal year (which fiscal year currently ends on June 30), commencing with the report for the 2007-08 Fiscal Year (the "Annual Report"), and to provide notices of the occurrence of certain enumerated events, if material. The specific nature of the information to be contained in the Annual Report or the notices of material events is set forth in "APPENDIX D – FORM OF CONTINUING DISCLOSURE AGREEMENT." These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The District has never failed to comply, in all material respects, with an undertaking pursuant to said Rule. See "CONTINUING DISCLOSURE" herein.

LIMITED OBLIGATIONS OF THE DISTRICT

THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT IS AS SET FORTH THEREIN AND DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT FOR WHICH THE DISTRICT IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION. THE OBLIGATION OF THE DISTRICT TO PAY LEASE PAYMENTS DOES NOT CONSTITUTE A DEBT OF THE DISTRICT, THE STATE OF CALIFORNIA, OR ANY OF ITS POLITICAL SUBDIVISIONS, AND DOES NOT CONSTITUTE AN INDEBTEDNESS WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION.

NEITHER THE DISTRICT OFFICERS, EMPLOYEES AND AGENTS NOR ANY PERSONS EXECUTING THE LEASE AGREEMENT SHALL BE LIABLE PERSONALLY ON THE LEASE AGREEMENT OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE AUTHORIZATION, EXECUTION OR DELIVERY THEREOF.

THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS IS NOT SECURED BY A MORTGAGE ON THE EXISTING FACILITIES, THE FACILITIES OR ANY OTHER PROPERTY, REAL OR PERSONAL, OF THE DISTRICT.

OFFERING AND DELIVERY OF THE CERTIFICATES

The Certificates are issued when, as and if executed and delivered to and received by the Underwriter, subject to the approval of legality by Greenberg Traurig, LLP, Santa Monica, California, Special Counsel.

Certain legal matters will be passed upon for the District and the Corporation by its counsel. Certain legal matters will be passed upon for the District by its Disclosure Counsel, The Weist Law Firm, A Professional Law Corporation, Scotts Valley, California. It is anticipated that the Certificates will be available for delivery in New York, New York on or about June 5, 2008.

THE DISTRICT

The District encompasses 24,800 square miles, making it the largest community college district, by area, in the State of California (the "State"). It includes most of Kern County (7,010 square miles), a small portion of San Bernardino County, the southern portion of Tulare County (2,955 square miles), and portions of Inyo and Mono Counties (totaling 12,000 square miles). The District was formed in 1961. The Tulare County portion was annexed in 1967; part of the Inyo County portion and the San Bernardino County portion were annexed in 1968; and the remainder of the Inyo County portion and the Mono County portion were annexed as of July 1, 1994. See "THE DISTRICT" herein.

The District currently operates three college campuses and six instructional centers. The largest campus is the Bakersfield Campus in Bakersfield with almost two-thirds of the approximately District-wide 17,958 full time equivalent students. The District's other two campuses are Porterville College at Porterville in Tulare County and Cerro Coso College at Ridgecrest (serving eastern Kern County, San Bernardino and Inyo Counties). See "THE DISTRICT" herein.

Although a largely autonomous body of higher education, the District is part of the statewide public school system for public education and as such interrelates with the Kern County Superintendent of Schools Office. The District uses the Kern County Treasurer's Office for investment of its monies. The District became fiscally independent from the Kern County Superintendent of Schools Office on July 1, 1990.

THE CORPORATION

The Kern Community College District Public Facilities Corporation (the "Corporation") was incorporated on February 24, 1988, as a nonprofit public benefit corporation organized and existing under laws of the State of California. It is governed by a Board of Directors consisting of all the members of the Board of Trustees of the District. The Corporation was formed solely for the purpose of assisting the District with financing capital improvements and facilities of the District. The lien represented by the Lease Agreement on the Project, as defined in this Official Statement, does not create a legal or equitable pledge, charge, lien or encumbrance upon any of the Corporation's property or upon its income, receipts or revenue, except the Lease Payments, as defined herein. See "THE CORPORATION" herein.

ASSIGNMENT AGREEMENT

Pursuant to an Assignment Agreement, dated as of March 1, 2004 (the "Assignment Agreement"), by and between the Corporation and the Trustee, the Corporation will continue to assign to the Trustee, for the benefit of the Owners, certain of its rights under the Lease Agreement, including (i) its right to receive amounts payable by the District under the Lease Agreement, and (ii) its rights to enforce amounts payable under the Lease Agreement upon default.

LEASE PAYMENTS

In general, the District is required under the Lease Agreement to make aggregate Lease Payments each year in consideration of the use and occupancy of the Project, from any legally available funds of the District or otherwise, in an amount designed to be sufficient to pay, when due, the annual principal and interest due with respect to the outstanding Certificates delivered pursuant to the Trust Agreement, subject to abatement of such payments resulting from damage, destruction or condemnation of all or a portion of the Project. The District has covenanted under the Lease Agreement that as long as the Project is available for the District's use and occupancy, it will take such action as may be necessary to include all Lease Payments in its annual budgets and to make the necessary appropriations therefor. See "RISK FACTORS" and "APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS" herein.

The Lease Agreement is, in the opinion of Special Counsel, a valid and binding obligation of the District enforceable against the District in accordance with its terms, except to the extent enforceability thereof may be limited by bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights heretofore or hereinafter enacted and may be subject to the exercise of judicial discretion in accordance with general principles of equity or otherwise in appropriate cases. See "RISK FACTORS – Limited Recourse on Default" herein.

The obligation of the District to pay Lease Payments does not constitute an obligation for which the District is obligated to levy or pledge any form of taxation or for which the District has pledged any form of taxation. The obligation of the District to pay Lease Payments does not constitute a debt or liability of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

CERTIFICATE RESERVE FUND

A Certificate Reserve Fund has been established under the Trust Agreement to be held by the Trustee to further secure the timely payment of principal and interest with respect to the Certificates. Except as described below, amounts in the Certificate Reserve Fund are to be used only to make Lease Payments with respect to the Certificates to the extent the amounts in the Lease Payment Fund are insufficient for such purpose. In the event that the Certificate Reserve Fund is less than the Reserve Requirement, all interest or income received on the investment of the Certificate Reserve Fund is required to be retained in the Certificate Reserve Fund and to the extent the Reserve Requirement is satisfied, all surplus interest or income received on the investment of the Certificate Reserve Fund will be applied to the Lease Payment Fund. See "LEASE PAYMENT FUND AND CERTIFICATE RESERVE FUND – Certificate Reserve Fund" herein.

PUBLIC LIABILITY AND DAMAGE INSURANCE

The Lease Agreement requires the District to maintain a standard comprehensive general insurance policy or policies in protection of the Corporation, the District, the Insurer, the Trustee and their respective members, officers, agents and employees. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained through a joint exercise of powers authority created for such purpose or, with the prior written consent of the Insurer, in the form of self-insurance by the District.

Said policy or policies shall provide for indemnification of said parties against direct or consequential loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Facility. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$500,000 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 \$3,000,000 covering all such risks. Deductibles, if any, shall be subject to the written consent of the Insurer. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the proceeds of such insurance shall have been paid.

FIRE AND EXTENDED COVERAGE INSURANCE

The Lease Agreement requires the District to procure and maintain, throughout the term of the Lease Agreement, insurance against loss or damage to any structures constituting any part of the Facility (as defined in the Lease Agreement) by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the District and, with the prior written consent of the Insurer, may be maintained in whole or in part through a joint exercise of powers authority created for such purpose.

Deductibles, if any, shall be subject to the written consent of the Insurer. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance must be in an amount equal to the greater of one hundred percent (100%) of the replacement cost of the Facility and the amount available to be funded by the Insurer under the Certificate Insurance Policy. The Net Proceeds of such insurance shall be applied as provided the Lease Agreement.

RENTAL INTERRUPTION INSURANCE

The District must procure, for the benefit of the Corporation and the Trustee, and maintain, or cause to be maintained, throughout the term of the Lease Agreement rental interruption insurance to cover loss of rental income to the Corporation resulting from rental abatement arising out of the District's inability to use any part of the Project during the term of the Lease Agreement as a result of any of the hazards covered in the insurance required by the Lease Agreement, in an amount at least equal to the maximum amount of Lease Payments payable in any two (2) year period, assuming the applicable interest rate is the Maximum Interest Rate. The Net Proceeds of such insurance must be paid to the Trustee and deposited in the Lease Payment Fund and credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

FORWARD LOOKING STATEMENTS

Certain statements included or incorporated by reference in the following information constitute "forward-looking statements." Such statements are generally identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties

and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. No assurance is given that actual results will meet the District's forecasts in any way, regardless of the level of optimism communicated in the information.

FINANCIAL INFORMATION

For certain financial information with respect to the District, see "THE DISTRICT" and "APPENDIX A – AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006-2007" herein. For a discussion of certain amendments to the Constitution of the State and recent initiatives, and their impact on the District, see the heading "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS" and "RISK FACTORS" herein.

THE FINANCING PLAN

THE ORIGINAL CERTIFICATES

The Original Certificates were executed and delivered on March 11, 2004, in the principal amount of \$39,950,000, of which \$39,950,000 remains outstanding and will be prepaid in full with the proceeds of the Certificates. The Original Certificates were executed and delivered primarily to provide funds for the acquisition, construction and reimbursement of certain capital improvement projects of the District and for the rehabilitation and modernization of certain existing educational facilities at the Bakersfield Campus, the Cerro Coso Campus and the Porterville Campus (collectively, the "Improvements").

THE FIXED RATE CONVERSION

The Original Certificates were initially executed and delivered at a Dutch Auction Rate, bearing variable rates of interest established in accordance with certain Dutch Auction Procedures set forth in the Original Trust Agreement (the "Dutch Auction Mode"). The Certificates are primarily being reoffered to finance the conversion of the Original Certificates from a Dutch Auction Mode to a Long Term Rate (as defined in the Original Trust Agreement), resulting in the interest rate applicable to the Certificates becoming fixed to the respective maturity dates of the Certificates at the interest rates indicated on the inside front cover page hereof, as specifically set forth in the Trust Agreement (the "Conversion"). Such interest will be payable on September 1 and March 1 of each year, commencing September 1, 2008.

In accordance with the Original Trust Agreement, all Original Certificates, whether or not tendered for purchase on or prior to Conversion Date, will be deemed purchased on the Conversion Date at a price of one hundred percent (100%) of the principal amount thereof, plus accrued and unpaid interest to such date, as set forth in the Trust Agreement. Prior to Conversion, a portion of the proceeds of the Certificates, in an amount necessary to convert the Original Certificates in full on the Conversion Date, will be deposited and invested in strict accordance with the Conversion Fund Escrow Agreement (as defined in the Trust Agreement), and will be held in trust as collateral for the Certificates until the Conversion Date, all as specifically set forth in the Trust Agreement.

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds to be received from the sale and delivery of the Certificates are projected to be applied as summarized in the following Table:

Table 1
KERN COMMUNITY COLLEGE DISTRICT
2008 CONVERSION OF 2004 VARIABLE RATE CERTIFICATES

ESTIMATED SOURCES AND USES OF PROCEEDS	
SOURCES	
<u>Sources of Funds:</u>	
Principal Amount of Certificates	\$40,280,000.00
Transferred Funds from Original Certificates	<u>4,073,876.08</u>
Total Sources of Funds	<u>\$43,891,398.13</u>
USES	
<u>Uses of Funds:</u>	
Escrow Fund	\$40,416,083.33
Capitalized Interest	138,801.08
Reserve Fund	2,730,293.76
Rounding and Contingency	3,419.96
Costs of Issuance ⁽¹⁾	<u>602,800.00</u>
Total Uses of Funds	<u>\$43,891,398.13</u>

(1) Includes fees and expenses of Special Counsel, Disclosure Counsel and Trustee, Underwriter's Discount, rating agency fees, printing costs of the Official Statement, contingency, and certain other miscellaneous expenses.

THE PROJECT

IN GENERAL

Pursuant to the Site Lease, the District will lease the Site and Existing Facilities to the Corporation, and pursuant to the Lease Agreement, the Corporation will, in turn, lease the Site and Existing Facilities back to the District in return for the Lease Payments. Pursuant to the Agency Agreement, the Corporation will appoint the District as its agent to implement the development of the Improvements. Pursuant to the Assignment Agreement, the Corporation is assigning to the Trustee, for the benefit of the Owners, certain of its rights under the Lease Agreement, including (i) its right to receive amounts payable by the District under the Lease Agreement, and (ii) its rights to enforce amounts payable under the Lease Agreement upon default.

THE SITE

The Site presently consists of the approximately 320-acre Cerro Coso Campus (the "Site"). The Cerro Coso Campus is comprised of educational, recreational and training buildings totaling approximately 210,940 square feet. The buildings and associated insurable contents have been appraised by Self-Insured Schools of California ("SISK"), and the District certifies that the value thereof is as of the date hereof, at least that of the par amount of the Certificates.

SUBSTITUTION OF SITE OR FACILITIES

The District shall have the option at any time and from time to time during the Term of the Lease Agreement to substitute other land as set forth in the Lease Agreement.

RELEASE OF SITE

The District will have the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Site as set forth in the Lease Agreement.

PURPOSE OF PROJECT

The Project has been undertaken by the District for the purpose of issuing the Certificates, the proceeds of which are being used to (i) prepay the all outstanding Original Certificates, and thereby effectuating the fixed rate conversion of the Certificates, (ii) to finance the Reserve Fund, and (iii) to pay the costs incurred in connection with the execution, delivery and sale of the Certificates. See "THE FINANCING PLAN" herein.

THE CERTIFICATES

General

The Certificates will be executed in the aggregate principal amount of \$40,280,000. The Certificates will be dated the date of delivery (the "Date of Delivery"), and will be executed as registered Certificates, without coupons, in denominations of \$5,000 principal amount or any integral multiple thereof.

Interest with respect to the Certificates will be payable each September 1 and March 1, commencing September 1, 2008 (each, a "Certificate Payment Date"), at the rate per annum set forth on the inside front cover page hereof. If a Certificate is executed: (i) as of a Certificate Payment Date, interest with respect thereto will be payable from the date thereof; (ii) after the close of business on the fifteenth day of the month preceding each Certificate Payment Date (whether or not a business day) (each, a "Record Date") and before the following Certificate Payment Date, interest with respect thereto will be payable from such following Certificate Payment Date; or (iii) prior to or on August 15, 2008, interest with respect thereto will be payable from the Date of Delivery.

Interest with respect to the Certificates will be computed on the basis of a 360-day year comprised of twelve 30-day months. Owners of Certificates in an aggregate principal amount of \$1,000,000 or more may, by providing written request to the Trustee, receive interest with respect to the Certificates by wire transfer to a bank account within the United States that is on record with the Trustee as of the Record Date.

The Certificates evidence and represent fractional and undivided interests of the Owners thereof in the Lease Payments to be made by the District. To the extent Lease Payments are abated or not made under the Lease, all Certificate Owners will receive a proportionate reduction in their payments. If the Lease is prepaid in part, for any reason, the Certificate Owner will be entitled only to the remaining Lease Payments.

Principal and premium, if any, with respect to the Certificates will be payable upon surrender by the Owners thereof at the principal office of the Trustee. Interest with respect to the Certificates will be payable by check mailed by first class mail to the Owners of record at the address shown on the Certificate registration books maintained by the Trustee for such purpose.

SOURCES OF PAYMENT FOR THE CERTIFICATES

Upon Conversion, each Certificate represents the direct, undivided fractional interest of the Owners in the Lease Payments to be made by the District under the Lease Agreement. Prior to Conversion, a portion of the proceeds of the Certificates, in an amount necessary to convert the Original Certificates in full on the Conversion Date, will be deposited with the Trustee and invested in strict accordance with the Conversion Fund Escrow Agreement (as defined in the Trust Agreement), and will be held in trust as collateral security for the Certificates until the Conversion Date, all as specifically set forth in the Trust Agreement. See “THE FINANCING PLAN” and “APPENDIX B – SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS” herein.

The Corporation, pursuant to the Assignment Agreement, will assign substantially all of its rights under the Lease Agreement, including its right to receive Lease Payments from the District as well as its right to enforce the Lease Agreement, to the Trustee for the benefit of the registered owners of the Certificates. The District is required under the Lease Agreement, subject to abatement as described in the Lease Agreement, to make Lease Payments in each year in consideration for the use and occupancy of the Project from any source of legally available funds in an amount sufficient to pay, when due, the annual principal, prepayment price (expressed as a percentage of the principal amount of the Certificates to be prepaid), if any, and interest with respect to the Certificates. See “RISK FACTORS – Abatement” herein.

The District has covenanted under the Lease Agreement to take such action as may be necessary to include all Lease Payments in its annual budget, and to make the necessary annual appropriations therefore. The Lease Payments are equivalent to the annual principal and interest represented by the Certificates. The obligation of the District to make Lease Payments under the Lease Agreement is as set forth herein and does not constitute an obligation of the District for which the District is obligated to levy or pledge any form of taxation or for which the District has levied or pledged any form of taxation. The obligation of the District to pay Lease Payments does not constitute a debt of the District, the State of California, or any of its political subdivisions, and does not constitute an indebtedness within the meaning of any constitutional or statutory debt limitation or restriction. Pursuant to the terms of the Lease Agreement, the covenant of the District to budget for and make necessary appropriations for the payment of the Lease Payments will be deemed a ministerial duty imposed by law.

ASSIGNMENT OF RIGHTS IN LEASE AGREEMENT

The Corporation has, pursuant to the Assignment Agreement, transferred, assigned and set over to the Trustee for the benefit of the Owners and the Certificate Insurer, certain of its rights in the Lease Agreement, including, but not limited to, all of the Corporation's rights to receive and collect all of the Lease Payments and all other amounts required to be deposited in the Lease Payment Fund pursuant to the Lease Agreement and the Trust Agreement.

All Lease Payments and such other amounts to which the Corporation may at any time be entitled shall be paid directly to the Trustee, and all of the Lease Payments collected or received by the Corporation will be deemed to be held and to have been collected or received by the Corporation as the agent of the Trustee, and if received by the Corporation at any time will be deposited with the Trustee on the same day, if practicable but in no event later than one (1) Business Day after the receipt thereof, and all such Lease Payments and such other amounts will be forthwith deposited by the Trustee upon the receipt thereof in the Lease Payment Fund.

BUDGET AND APPROPRIATION OF LEASE PAYMENTS

During the term of the Lease Agreement, so long as the Project, or a component thereof, is available for the District's use, the District is required under the terms of the Lease Agreement to make Lease Payments for the Project or a component thereof from any source of legally available funds of the District. The District has covenanted in the Lease Agreement to take such action as may be necessary to include (from all lawfully available money of the District) all Lease Payments due under the Lease Agreement as a separate line item in each of its annual budgets during the term of the Lease Agreement and to make the necessary annual appropriations for the actual amount of all such Lease Payments due and any other payments due under the Lease Agreement. The covenants of the District will be deemed to be duties imposed by law, and it will be the duty of each and every public official of the 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 such covenants. See "RISK FACTORS" herein.

The Trustee has no obligation or liability to the Owners of the Certificates for the obligation of the District to make Lease Payments or for the payment of the principal or interest or prepayment premiums, if any, represented by the Certificates; but rather, the Trustee's sole obligations are to administer, for the benefit of the District, the Corporation and the Owners of the Certificates, the various funds and accounts established under the Trust Agreement and to receive and apply money which it receives for credit to such funds, as provided in the Trust Agreement, including the application of moneys received for the payment of principal and interest due with respect to the Certificates.

TRUSTEE, CERTIFICATE REGISTRAR

Deutsche Bank National Trust Company, located in Los Angeles, California, will act as the Trustee. As long as DTC's book-entry method is used for the Certificates, the Trustee will send any notice of prepayment or other notices to owners only to DTC. Any failure of DTC to advise any DTC Participant, or of any DTC Participant to notify any Beneficial Owner, of any such notice and its content or effect will not affect the validity or sufficiency of the proceedings relating to the prepayment of the Certificates called for prepayment of any other action premised on such notice.

The Trustee, the District, the Corporation, the Certificate Insurer and the Underwriter of the Certificates have no responsibility or liability for any aspects of the records relating to or payments made on account of beneficial ownership, or for maintaining, supervising or reviewing any records relating to beneficial ownership, of interest in the Certificates.

DEFEASANCE

If all or a specified portion of Certificates shall be paid and discharged in any one or more of the following ways:

- (i) by paying or causing to be paid the principal and interest and prepayment premiums (if any) with respect to all outstanding Certificates, as and when the same become due and payable; or
- (ii) by irrevocably depositing with the Trustee, or an escrow holder selected by the District, in trust for the payment of Lease Payments as they become due,

then, notwithstanding that any Certificates will not have been surrendered for payment, all obligations of the District, the Trustee and the District with respect to all Outstanding Certificates will cease and terminate, except only the obligation of the Trustee to pay or cause to be paid to the owners of the Certificates all sums due and the obligation of the District to pay the Trustee the amounts owing to the Trustee pursuant to the Trust Agreement.

TRANSFER AND EXCHANGE OF CERTIFICATES

The Trustee will keep or cause to be kept a Certificate Register, which shall at all times upon responsible notice be open to inspection by the District and the Corporation; and, upon presentation for such purpose, the Trustee will, register or transfer or cause to be registered or transferred, on the Certificate Register, Certificates as provided by the Trust Agreement.

In the event that the book-entry system as described above is no longer used with respect to the Certificates, the following provision will govern the registration, transfer, and exchange of the Certificates.

Any Certificate may be transferred upon the Registration Books by the person in whose name it is registered upon surrender of such Certificate for cancellation at the Principal Office of the Trustee, accompanied by delivery of a written instrument of transfer in a form acceptable to the Trustee, duly executed. Whenever a Certificate is surrendered for registration of transfer, or exchange, the Trustee will execute and deliver a new Certificate or Certificates for like aggregate principal amount in authorized denominations. The Trustee may require the payment by the Certificate Owner requesting such transfer of any tax or other governmental charge required to be paid with respect to such transfer. The District will pay the cost of printing Certificates and any services rendered or expenses incurred by the Trustee in connection with any transfer. The Trustee will not be required to transfer or exchange any Certificates during the period between the date fifteen (15) days prior to the date of selection of Certificates for prepayment and such date of selection; or any Certificates selected for prepayment.

Certificates may be exchanged, upon surrender thereof, at the Principal Office of the Trustee for a like aggregate principal amount of Certificates of other authorized denominations of the same maturity.

MUTILATED, LOST, DESTROYED, OR STOLEN CERTIFICATES

In the event that the book-entry system as described herein under the section entitled “BOOK-ENTRY ONLY SYSTEM” is no longer used with respect to the Certificates, the following provision will govern the registration, transfer, and exchange of the Certificates.

If any Certificate shall become mutilated, the Trustee, at the expense of the owner of said Certificate, shall execute and deliver a new Certificate of like tenor, maturity and amount in exchange and substitution for the Certificate so mutilated, but only upon surrender to the Trustee of the Certificate so mutilated. Every mutilated Certificate so surrendered to the Trustee shall be canceled by it and destroyed in accordance with its retention policy then in effect, with a certificate of destruction furnished to the District. If any Certificate are lost, destroyed or stolen, evidence of such loss, destruction or theft must be submitted to the Trustee, and, if such evidence is satisfactory to the Trustee and such Owner provides an indemnity to the Trustee satisfactory to the Trustee, the Trustee, at the expense of the Certificate Owner, will execute and deliver a new Certificate of like tenor, maturity and amount and numbered as the Trustee shall determine in lieu of and in substitution for the Certificate so lost, destroyed or stolen. The Trustee may require payment of the expenses by the Owner that may be incurred by the Trustee, the District or the Corporation in connection with the issuance of a new Certificate. Any Certificate executed and delivered in lieu of any Certificate alleged to be lost, destroyed or stolen will be equally and fractionally entitled to the benefits of the Trust Agreement with all other Certificates secured by the Trust Agreement. The Trustee will not be required to treat both the original Certificate and any replacement Certificate as being Outstanding for the purpose of determining the principal amount of Certificates which may be executed and delivered or for the purpose of determining any percentage of Certificates Outstanding, but both the original and replacement Certificate will be treated as one and the same. In lieu of executing and of delivering a new Certificate in exchange for a Certificate which has been mutilated, lost, destroyed or stolen, and which has matured or has been called for prepayment, the Trustee may make payment with respect to such Certificate upon receipt of the aforementioned indemnity.

FIRE AND EXTENDED COVERAGE INSURANCE

The Lease Agreement requires the District to procure and maintain, throughout the term of the Lease Agreement, insurance against loss or damage to any structures constituting any part of the Facility (as defined in the Lease Agreement) by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the District and, with the prior written consent of the Insurer, may be maintained in whole or in part through a joint exercise of powers authority created for such purpose. Deductibles, if any, shall be subject to the written consent of the Insurer. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, riot, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance must be in an amount equal to the greater of one hundred percent (100%) of the replacement cost of the Facility. The Net Proceeds of such insurance shall be applied as provided in the Lease Agreement.

The Lease Agreement requires the District to maintain a standard comprehensive general insurance policy or policies in protection of the Corporation, the District, the Trustee and their respective members, officers, agents and employees. Such liability insurance may be maintained as part of or in conjunction with any other liability insurance coverage carried by the District, and may be maintained through a joint exercise of powers authority created for such purpose or, with the prior written consent of the Insurer, in the

form of self-insurance by the District. Said policy or policies shall provide for indemnification of said parties against direct or consequential loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the Facility. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$500,000 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 \$3,000,000 covering all such risks. Deductibles, if any, shall be subject to the written consent of the Insurer. The proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the proceeds of such insurance shall have been paid.

RENTAL INTERRUPTION INSURANCE

The District must procure, for the benefit of the Corporation, the Trustee and the Certificate Insurer, and maintain, or cause to be maintained, throughout the term of the Lease Agreement rental interruption insurance to cover loss of rental income to the Corporation resulting from rental abatement arising out of the District's inability to use any part of the Facility during the term of the Lease Agreement as a result of any of the hazards covered in the insurance required by the Lease Agreement, in an amount at least equal to the maximum amount of Lease Payments payable in any two (2) year period, assuming the applicable interest rate is the Maximum Interest Rate. The Net Proceeds of such insurance must be paid to the Trustee and deposited in the Lease Payment Fund and credited towards the payment of the Lease Payments in the order in which such Lease Payments come due and payable.

EMINENT DOMAIN PROCEEDS

If all or any part of the Facility shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the Lease Agreement and shall be applied and disbursed by the Trustee as set forth in the Lease Agreement and the Trust Agreement.

REENTERING AND RELETTING

If the District defaults in the performance of its obligations under the Lease Agreement, the Trustee, as assignee of the Corporation, may re-enter and relet the Project and may enforce the Lease Agreement and hold the District liable for all Lease Payments on an annual basis while re-entering and reletting the Project. Such re-entry and reletting shall not effect a surrender of the Lease Agreement. The District has agreed to pay all costs, loss or damage howsoever occurring.

PREPAYMENT PROVISIONS

OPTIONAL REDEMPTION

The Certificates maturing on or before March 1, 2016 are not subject to call and redemption prior to maturity. The Certificates maturing on or after March 1, 2017 shall be subject to call and redemption prior to maturity, at the option of the District, from the proceeds of optional prepayments of Lease Payments made by the District pursuant to the Lease Agreement, among maturities as shall be determined by the District, and by lot within each maturity, as a whole or in part, on any date on or after March 1, 2016, at the optional redemption prices set forth below, calculated as a percentage of the principal amount thereof, with accrued interest to the date of redemption:

<u>Redemption Period</u>	<u>Redemption Price</u>
March 1, 2016 through February 29, 2017	102%
March 1, 2017 through February 29, 2018	101%
March 1, 2018 and thereafter	100%

EXTRAORDINARY PREPAYMENT

The Certificates may be prepaid, in whole or in part, in any integral multiple of an Authorized Denomination, on any Interest Payment Date, from Net Proceeds received by the District of insurance, or condemnation awards with respect to the Project, which Net Proceeds are deposited in the Lease Payment Fund and credited towards the prepayment of the Lease Payments made by the District pursuant to the Lease Agreement, at a prepayment price equal to the principal amount of the Certificates to be prepaid, together with accrued interest to the date fixed for prepayment, without premium.

MANDATORY SINKING FUND PREPAYMENT

The Certificates are subject to mandatory sinking fund prepayment, in part as set forth below on March 1 in the years set forth below to the extent of the principal components of scheduled Lease Payments required to be paid by the District pursuant to the Lease Agreement with respect to each such prepayment date, at a prepayment price equal to the principal amount thereof, together with accrued interest thereon to the date of prepayment, without premium, as follows:

MANDATORY SINKING FUND PREPAYMENT SCHEDULE			
<u>Sinking Fund Prepayment Date (March 1)</u>	<u>Principal Amount of Certificates to be Prepaid</u>	<u>Sinking Fund Prepayment Date (March 1)</u>	<u>Principal Amount of Certificates to be Prepaid</u>
2028	1,940,000	2032	2,355,000
2029	2,035,000	2033	2,475,000
2030	2,135,000	2034†	2,600,000
2031	2,245,000		

† Maturity

In the event that the Trustee shall prepay Certificates in part but not in whole, the amount of the Certificates to be prepaid in each subsequent year will be reduced proportionately to correspond to the principal components of the Lease Payments remaining following such prepayment, determined as set forth in the Lease Agreement such that approximately equal Lease Payments prevail following each such prepayment.

SELECTION OF CERTIFICATES FOR REDEMPTION

All or a portion of any Certificate may be prepaid, but only in a principal amount equal to an Authorized Denomination. In the event that part, but not all, of the Certificates are to be redeemed (except for mandatory sinking fund redemption), the Certificates to be redeemed will be selected by the Trustee among maturities as designated in writing by the District and by lot within a maturity; provided, however, that, as shall be set forth in a Written Request of the District, the Certificates may be redeemed by any maturity or maturities selected by the District to correspond with Lease Payments prepaid by the District, and by lot within a maturity. The Trustee will promptly notify the District in writing of the numbers of the Certificates so selected for redemption on such date. For purposes of such selection, any Certificate may be redeemed in part in Authorized Denominations.

In the event of a redemption for which the Trustee does not have monies available to redeem the entire amount scheduled for redemption, the Trustee will redeem Certificates of the applicable maturity or maturities by lot up to a principal amount equal to the available monies.

NOTICE OF REDEMPTION

The Trustee will give to the Certificate Owners notice of the redemption of the Certificates. Such notice will be given not less than thirty (30) and no more than sixty (60) days prior to the date fixed for redemption to each Owner of the Certificate or Certificates to be redeemed. When redemption of the Certificates is authorized pursuant to the Trust Agreement, the Trustee will give notice, at the expense of the District, of the redemption of the Certificates.

While the Certificates are subject to DTC's Book-Entry system, the Trustee will be required to give notice of redemption only to DTC as provided in the letter agreement between the District and DTC, and the Trustee will not be required to give any such notice of redemption to any other person or entity other than certain securities depositories and information repositories as identified in the Trust Agreement. DTC and the Participants will have sole responsibility for providing any such notice of redemption to the beneficial owners of the Certificates to be prepaid. Any failure of DTC to notify any Participant, or any failure of Participants to notify the Beneficial Owner of any Certificates to be prepaid, of a notice of redemption or its content or effect will not affect the validity of the notice of redemption, or alter the effect of redemption described below under "Effect of Redemption."

During any period in which the Certificates are not subject to the Book-Entry system, notice of redemption of any Certificates to be prepaid will be given to the respective Owners of Certificates designated for redemption by first-class mail, postage prepaid, at their addresses appearing on the registration books of the Trustee, at least 30 but not more than 60 days prior to the redemption date. Such notice must also be given to each of certain specified securities depositories and to certain other specified services.

EFFECT OF REDEMPTION

If notice of redemption has been duly given as provided in the Trust Agreement and moneys for the payment of the redemption price of the Certificates to be prepaid are held by the Trustee, then on the redemption date designated in such notice, the Certificates so called for redemption will become payable at the redemption price specified in such notice; and from and after the date so designated, interest evidenced by the Certificates so called for redemption will cease to accrue, such Certificates will cease to be entitled to any benefit or security under the Trust Agreement and the Owners of such Certificates will have no rights in respect thereof except to receive payment of the redemption price thereof, and such moneys will be pledged to such redemption. All Certificates prepaid pursuant to the provisions of the Trust Agreement will be canceled by the Trustee and will not be redelivered.

LEASE PAYMENT FUND AND CERTIFICATE RESERVE FUND

THE LEASE PAYMENT FUND

The Trustee will establish a fund designated as the “Lease Payment Fund” as a fund separate and apart from all other funds and accounts held by the Trustee. All moneys at any time deposited by the Trustee in the Lease Payment Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates and the Insurer. So long as any Certificates are Outstanding, neither the District nor the Corporation shall have any beneficial right or interest in the Lease Payment Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as set forth in the Trust Agreement.

Within the Lease Payment Fund the Trustee will establish an account designated as the “Capitalized Interest Account” as an account separate and apart from all other funds and accounts held by the Trustee. The funds in the Capitalized Interest Account will be applied to satisfy interest with respect to the Lease Payments as provided in the Lease Agreement, and to satisfy the Trustee’s fees and costs incurred in connection with the Certificates to the extent funds within the Delivery Costs Fund are insufficient.

There will be deposited in the Lease Payment Fund all Lease Payments received by the Trustee, including any moneys received by the Trustee for deposit therein pursuant to the Lease Agreement or pursuant to the Trust Agreement (except moneys deposited for Certificate Reserve Fund purposes). There shall be deposited in the Capitalized Interest Account of the Lease Payment Fund the proceeds of sale of the Certificates required to be deposited therein pursuant to the Trust Agreement representing the interest component coming due on the first Interest Payment Date.

APPLICATION OF MONEYS

The Trustee will, on each Payment Date, draw from the Lease Payment Fund, an amount equal to the aggregate principal, prepayment price (but not premium) and interest due with respect to the Certificates on such Payment Date. The Trustee will make all payments on account of principal, prepayment price and interest with respect to the Certificates first from funds derived from the Lease Payment Fund, then from the Certificate Reserve Fund. The Trustee will make all payments on account of principal, prepayment price and interest with respect to the Certificates directly to the Owners thereof.

Amounts on hand in the Lease Payment Fund will be applied to the payment of the principal and interest with respect to the Certificates to Certificate Owners. If on any Interest Payment Date amounts on deposit in the Lease Payment Fund are insufficient to pay the full amount of principal and interest then due and payable with respect to the Certificates then the Trustee will withdraw moneys from the Certificate Reserve Fund and apply such amounts first to the payment of interest past due, *pro rata* if necessary, and second to the payment of principal past due, *pro rata*, if necessary.

When amounts on deposit in the Capitalized Interest Account of the Lease Payment Fund are depleted, the Trustee will close such account and all payments shall be made through the use of the Lease Payment Fund.

Any surplus remaining in the Lease Payment Fund after prepayment or payment in full of (i) all Certificates, including premiums and accrued interest (if any), and (ii) any applicable fees and expenses to the Trustee and any amounts due to the Insurer, will be withdrawn by the Trustee and remitted to the District.

CERTIFICATE RESERVE FUND

The Trustee will establish a fund designated as the "Certificate Reserve Fund" as a fund separate and apart from all other funds and accounts held by the Trustee. All moneys at any time deposited by the Trustee in the Certificate Reserve Fund will be held by the Trustee in trust for the benefit of the Owners of the Certificates and the Insurer. So long as any Certificates are Outstanding, neither the District nor the Corporation will have any beneficial right or interest in the Certificate Reserve Fund or the moneys deposited therein, except only as provided in the Trust Agreement, and such moneys will be used and applied by the Trustee as set forth in the Trust Agreement.

Interest earnings accruing in the Certificate Reserve Fund and amounts deposited in the Certificate Reserve Fund in excess of the Certificate Reserve Fund Requirement will be transferred to the Lease Payment Fund.

Amounts available in the Certificate Reserve Fund will be used and withdrawn by the Trustee solely for the purposes set forth in the Trust Agreement. If, on any Interest Payment Date, the amount on deposit in the Lease Payment Fund is insufficient to pay the interest due with respect to the Certificates on such Interest Payment Date, the Trustee will transfer from the Certificate Reserve Fund and deposit in the Lease Payment Fund an amount sufficient to make up such deficiency. If, on any Payment Date, the amount on deposit in the Lease Payment Fund is insufficient to pay the principal due with respect to the Certificates on such date, the Trustee will transfer from the Certificate Reserve Fund and deposit in the Lease Payment Fund an amount sufficient to make up such deficiency. Moneys, if any, on deposit in the Certificate Reserve Fund will be withdrawn and applied by the Trustee for the final payment on the Certificates.

In any event of any transfer from the Certificate Reserve Fund, the Trustee will, within five (5) days thereafter, provide written notice to the District and the Insurer of the amount and the date of such transfer. If the sum of the amount on deposit in the Certificate Reserve Fund is less than the Certificate Reserve Fund Requirement, the Lease Payments thereafter received from the District not needed to pay the interest or principal components payable to the Owners on the next Interest Payment Date will be used to increase the amount on deposit in the Certificate Reserve Fund to an amount which will equal the Certificate Reserve Fund Requirement.

BOOK-ENTRY ONLY SYSTEM

GENERAL

The following description of the procedures and record-keeping with respect to the beneficial ownership interests in the Certificates, payment of principal, interest and other payments with respect to the Certificates to Owners, confirmation and transfer of beneficial ownership interests in such Certificates and other related transactions by and between the Depository Trust Company (“DTC”), New York, New York, and the Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and the Owners should not rely on the following information with respect to such matters, but, instead should confirm the same with DTC or the Owners, as the case may be.

DTC will act as the initial depository for the Certificates. Cede & Co., will be the initial Nominee of DTC. The Certificates will be initially executed and delivered in the form of a single, fully registered Certificate for each maturity (which may be typewritten). Upon initial execution and delivery, the ownership of such Certificate(s) will be registered in the Certificate Register in the name of the Nominee identified below as the nominee of DTC.

LIMITED PURPOSE TRUST COMPANY

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument from over 85 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor’s highest rating: AAA.

The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC’s records. The ownership interest of each actual

purchaser of each Certificate (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Certificates 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 such other DTC nominee) will consent or vote with respect to the Certificates unless authorized by a Direct Participant in accordance with DTC’s Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts, upon DTC’s receipt of funds and corresponding detail information from District or Trustee on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant and not of DTC (nor its

nominee), Trustee, or District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of District or 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.

AS LONG AS CEDE & CO., OR ITS SUCCESSOR AS A NOMINEE OF DTC, IS THE OWNER OF THE CERTIFICATES, REFERENCES HEREIN TO THE OWNERS OF THE CERTIFICATES SHALL MEAN CEDE & CO., AS AFORESAID, AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE CERTIFICATES. THE BENEFICIAL OWNERS WILL NOT RECEIVE CERTIFICATES REPRESENTING THEIR BENEFICIAL OWNERSHIP INTERESTS IN THE CERTIFICATES. IT IS ANTICIPATED THAT EACH BENEFICIAL OWNER WILL RECEIVE A WRITTEN CONFIRMATION OF THE OWNERSHIP INTEREST ACQUIRED BY SUCH BENEFICIAL OWNER IN THE CERTIFICATES FROM THE PERSON OR ENTITY FROM WHOM SUCH OWNERSHIP INTEREST IS ACQUIRED.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that District believes to be reliable, but District takes no responsibility for the accuracy thereof.

THE CERTIFICATE INSURANCE POLICY

Set forth below is a brief summary of certain information concerning Ambac Assurance Corporation (the "Certificate Insurer") and the terms of the Insurer's financial guaranty insurance policy (the "Certificate Insurance Policy"). Information with respect to the Insurer has been supplied to the District by the Certificate Insurer. The following discussion does not purport to be complete and is qualified in its entirety by reference to the Certificate Policy. No representation is made by the District as to the accuracy or adequacy of the following information or as to the absence of material adverse changes in such information subsequent to the date hereof, or that the information contained and incorporated herein by reference is correct. The following information has been furnished by the Insurer for use in the Reoffering Memorandum. Reference is made to APPENDIX E hereto for a specimen of the Certificate Insurance Policy.

PAYMENT PURSUANT TO CERTIFICATE INSURANCE POLICY

The Certificate Insurer has previously issued a Certificate Insurance Policy, effective as of the date of issuance of the Original Certificates. Under the terms of the Certificate Insurance Policy, the Certificate Insurer will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the Certificates that will become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Certificate Insurance Policy). The Certificate Insurer will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one

business day following the date on which The Certificate Insurer shall have received notice of Nonpayment from the Trustee. The insurance will extend for the term of the Certificates and, once issued, cannot be canceled by the Certificate Insurer.

The Certificate Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Certificates become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Certificates, the Certificate Insurer will remain obligated to pay the principal of and interest on outstanding Certificates on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Certificates, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that the Certificate Insurer elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Certificate Insurer's obligations under the Certificate Insurance Policy shall be fully discharged.

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

The Certificate Insurance Policy does **not** insure any risk other than Nonpayment (as set forth in the Certificate Insurance Policy). Specifically, the Certificate Insurance Policy does **not** cover:

1. Payment on acceleration, as a result of a call for prepayment (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. Payment of any prepayment, prepayment or acceleration premium; and
3. Nonpayment of principal or interest caused by the insolvency or negligence of the Trustee, Paying Agent or Bond Registrar, if any.

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

Upon payment of the insurance benefits, The Certificate Insurer will become the owner of the Certificate(s), appurtenant coupon, if any, or right to payment of the principal of or interest on such Certificate(s) and will be fully subrogated to the surrendering Owner's rights to payment.

The Certificate Insurance Policy does not insure against loss relating to payments to the purchase price of the Certificates upon tender by a registered owner thereof or any preferential transfer relating to payments of the purchase price of the Certificates upon tender by a registered owner thereof.

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

THE CERTIFICATE INSURER

The Certificate Insurer is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **\$12,282,000,000** (unaudited) and statutory capital of approximately **\$6,806,000,000** (unaudited) as of **March 31, 2008**. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. The Certificate Insurer has been assigned the following financial strength ratings by the following rating agencies: Aaa, with negative outlook, by Moody's Investors Service, Inc.; AAA, with negative outlook, by Standard and Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc.; and AA, with negative outlook, by Fitch Ratings.

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

The Certificate Insurer makes no representation regarding the Certificates or the advisability of investing in the Certificates and makes no representation regarding, nor has it participated in the preparation of, this Reoffering Memorandum other than the information supplied by the Certificate Insurer and presented under the heading "THE CERTIFICATE INSURANCE POLICY."

AVAILABLE INFORMATION

The parent company of the Certificate Insurer, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company.

These reports, proxy statements and other information can also be read at the Certificate Insurer's internet website at www.ambac.com and at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of the Certificate Insurer's financial statements prepared on the basis of accounting practices prescribed or permitted by the State of Wisconsin Office of the Commissioner of Insurance are available without charge from the Certificate Insurer. The address the Certificate Insurer's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

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

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 and filed on February 29, 2008;
2. The Company's Current Report on Form 8-K dated and filed on March 7, 2008;
3. The Company's Current Reports on Form 8-K dated and filed on March 12, 2008;
4. The Company's Current Report on Form 8-K dated and filed on April 23, 2008; and
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2008 and filed on May 12, 2008.

The Certificate Insurer's consolidated financial statements and all other information relating to the Certificate Insurer and subsidiaries included in the Company's periodic reports filed with the SEC subsequent to the date of this Reoffering Memorandum and prior to the date of closing of the Certificates shall, to the extent filed (rather than furnished pursuant to Item 9 of Form 8-K), be deemed to be incorporated by reference into this Reoffering Memorandum and to be a part hereof from the respective dates of filing of such reports.

Any statement contained in a document incorporated in this Reoffering Memorandum by reference shall be modified or superseded for the purposes of this Reoffering Memorandum to the extent that a statement contained in a subsequently filed document incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffering Memorandum.

Copies of all information regarding the Certificate Insurer that is incorporated by reference in this Reoffering Memorandum are available for inspection in the same manner as described above in "Available Information."

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

RISK FACTORS

The purchase of the Certificates involves certain investment risks that are discussed throughout this Official Statement. Accordingly, the following factors, along with the other information in the Official Statement, should be considered by potential investors in making an independent evaluation regarding the prudence of purchasing any Certificates. However, such listed factors do not purport to be an exhausting listing of risks and other considerations that may be relevant to an investment in the Certificates. In addition, the order in which the following factors are presented is not intended to reflect the relative importance of any such risks.

FINANCIAL CONDITION OF THE DISTRICT

With respect to the financial condition of the District as of June 30, 2007, see “APPENDIX A – AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006-2007” herein.

SECURITY FOR THE CERTIFICATES; LIMITED OBLIGATION OF THE DISTRICT

THE OBLIGATION OF THE DISTRICT TO BUDGET FOR AND TO PAY THE LEASE PAYMENTS UNDER THE LEASE AGREEMENT DOES NOT CONSTITUTE AN OBLIGATION OF THE DISTRICT OR THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMIT OR RESTRICTION, AND DOES NOT CONSTITUTE AN OBLIGATION FOR WHICH THE DISTRICT OR THE STATE OF CALIFORNIA IS OBLIGATED TO LEVY OR PLEDGE ANY FORM OF TAXATION OR FOR WHICH THE DISTRICT OR THE STATE OF CALIFORNIA HAS LEVIED OR PLEDGED ANY FORM OF TAXATION. NEITHER THE CERTIFICATES NOR THE OBLIGATION OF THE DISTRICT TO MAKE LEASE PAYMENTS UNDER THE LEASE AGREEMENT CONSTITUTES A DEBT OF THE DISTRICT, THE STATE OF CALIFORNIA, OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION OR RESTRICTION OF THE STATE OF CALIFORNIA OR A PLEDGE OF THE FULL FAITH AND CREDIT OF SUCH PARTIES. THE DISTRICT HAS NO TAXING POWER.

NEITHER BOARD OF TRUSTEE NOR ANY PERSONS EXECUTING THE CERTIFICATES, NOR ANY OFFICER OR EMPLOYEE OF THE DISTRICT SHALL BE PERSONALLY LIABLE ON THE CERTIFICATES OR SUBJECT TO ANY PERSONAL LIABILITY OR ACCOUNTABILITY BY REASON OF THE EXECUTION THEREOF.

Except as noted herein, although the Lease Agreement does not create a pledge, lien or encumbrance upon the funds of the District, the District is obligated under the Lease Agreement to pay the Lease Payments from any source of legally available funds and the District has covenanted in the Lease Agreement that it will take such action as may be necessary to include all Lease Payments due under the Lease Agreement in its annual budgets and to make necessary annual appropriations for all such rental payments. The District is currently liable and may become liable on other obligations payable from general revenues, some of which may have a priority over the Lease Payments. However, the District may incur obligations payable from general revenues which have a priority over the Lease Payments, and the Lease Agreement does not prohibit the District from incurring additional obligations payable from general revenues on a parity with the Lease Payments. In the event the District’s revenue sources are less than its total obligations, the District could choose to fund other municipal services before making Lease Payments and other payments due under the Lease Agreement, except from amounts on deposit in the Lease Payment Fund. The District’s ability to collect, budget and appropriate various revenues is subject to current and future State laws and constitutional provisions, and it is possible that the interpretation and application of these provisions could result in an inability of the District to pay Lease Payments when.

NO LIMITATION ON INCURRING ADDITIONAL OBLIGATIONS

The District has the capacity to enter into other obligations which may constitute additional charges against its general revenues. To the extent that additional obligations are incurred by the District, the funds available to make Lease Payments may be decreased. In the event the District's revenue sources are less than its total obligations, the District could choose to fund other activities before making Lease Payments and other payments due under the Lease Agreement. No assurance is given that the District would not fund any such other activities.

ABATEMENT

In the event of substantial interference with the District's right to use and occupy any portion of the Project by reason of damage to, or destruction or condemnation of the Project, or any defects on title to the Project which causes the District not to have the use and possession of all or a substantial use of the Project, the District's obligation to make Lease Payments will be subject to abatement. See "THE CERTIFICATES – Budget and Appropriation of Lease Payments," herein. In the event that such portion of the Project, if damaged or destroyed by an insured casualty, could not be replaced during the period of time in which proceeds of the District's rental interruption insurance will be available in lieu of Lease Payments, plus the period for which funds are available from the funds and accounts established under the Trust Agreement, or in the event that casualty insurance proceeds are insufficient to provide for complete repair or replacement of such portion of the Project or prepayment of the Certificates, there could be insufficient funds to make payments with respect to the Certificates and therefore to pay Owners in full.

Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease Agreement by reason of damage, destruction, noncompletion or unavailability of all or a portion of the Project to the extent that: (i) the fair rental value of the portions of the Project not damaged, destroyed, or otherwise unavailable for use and occupancy by the District is equal to or greater than the unpaid principal component of the Lease Payments; or (ii) (A) the proceeds of rental interruption insurance or (B) amounts in the Insurance and Condemnation Fund and/or the Lease Payment fund are available to pay Lease Payments which would otherwise be abated.

LIMITED RECOURSE ON DEFAULT

If the District defaults on its obligations to make Lease Payments, the Insurer assumes the risk of nonpayment. However, should the Insurer fail to honor its obligations under the Certificate Insurance Policy, then the Trustee, as assignee of the Corporation, may exercise its remedies under the Lease Agreement and hold the District liable for all Lease Payments on an annual basis and will have the right to re-enter and re-let the Project. In the event such re-letting occurs, the District would be liable for any resulting deficiency in Lease Payments. Alternatively, the Trustee may terminate the Lease Agreement and proceed against the District to recover damages pursuant to the Lease Agreement.

No assurances can be given that the Trustee would be able to re-let the Project so as to provide rental income sufficient to make principal and interest payments with respect to the Certificates in a timely manner, and the Trustee is not empowered to sell the fee interest in the Project for the benefit of the Owners of the Certificates. Due to the essential government function of the property it is not certain whether a court would permit the exercise of the remedies of repossession and re-letting of the Project. Any suit for money

damages would be subject to limitations on legal remedies against cities in the State, including a limitation on enforcement of judgments against funds needed to serve the public welfare and interest. Moreover, there can be no assurance that such re-letting will not adversely affect the exclusion of any interest component of Lease Payments from federal or state income taxation.

IN THE EVENT OF A DEFAULT UNDER THE LEASE AGREEMENT, THERE IS NO AVAILABLE REMEDY OF ACCELERATION OF THE TOTAL LEASE PAYMENTS DUE OVER THE TERM OF THE LEASE AGREEMENT. THE DISTRICT WILL ONLY BE LIABLE FOR LEASE PAYMENTS ON AN ANNUAL BASIS AS THEY COME DUE, AND THE TRUSTEE WOULD BE REQUIRED TO SEEK SEPARATE JUDGMENTS FOR THE LEASE PAYMENTS AS THEY COME DUE. IN ADDITION, ANY SUCH SUIT FOR MONEY DAMAGES COULD BE SUBJECT TO LIMITATIONS ON LEGAL REMEDIES AGAINST PUBLIC AGENCIES IN CALIFORNIA, INCLUDING A LIMITATION ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS NEEDED TO SERVE THE PUBLIC WELFARE AND INTEREST AND A LIMITATION ON ENFORCEMENT OF JUDGMENTS AGAINST FUNDS OF A FISCAL YEAR OTHER THAN THE FISCAL YEAR IN WHICH THE LEASE PAYMENTS WERE DUE.

GEOLOGIC, TOPOGRAPHIC AND CLIMATE CONDITIONS

The value of the Project, along with all other capital improvements of the District, can be adversely affected by a variety of natural events and conditions. These include, without limitations:

- geologic conditions such as seismic activity and earthquakes;
- topographic conditions such as earth movements, subsidence, avalanches and floods; and
- climatic conditions such as droughts.

The District, like much of California, is subject to storms, floods, earth movements and seismic activity that could negatively affect the value of the Project, as well as other assets of the District. The possibility of the occurrence of some of these conditions and events has not been taken into account in the design of the Project and has not been taken into account in the designs of other public improvements which may be acquired or constructed by the District or other public agencies.

The District expects that one or more of these conditions will occur from time to time, and, even if design criteria have been implemented to mitigate certain geologic events, such conditions may nevertheless result in damage to the Project.

HAZARDOUS SUBSTANCES

In general, the District as the owners and operators of the Project Improvements may be required by law to remedy conditions of the Project Improvements relating to released or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as "CERCLA" is the most well known and widely applicable of these laws, but California laws with regard to hazardous substances are also stringent and similar. Under many of these laws, the owner or operator of a property is obligated to remedy a hazardous substance condition whether or not the owner or operator has anything to do with creating or handling the hazardous substance. The effect therefore, should any of the Project or the Improvements be affected by a hazardous substance, is to reduce the marketability and value of the parcel by the costs of remedying the condition, and therefore could impair the District's ability to make Lease Payments.

The District is not aware that any of the Project has such a current liability. However, it is possible that such liabilities do currently exist and that the District is not aware of them. Further, it is possible that liabilities may arise in the future with respect to any of the Project resulting from the current existence on the parcel of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of the Project.

SUBSTITUTION OR RELEASE OF PROPERTY

The Lease Agreement provides that upon the satisfaction of the other conditions specified therein, the District may substitute other public facilities or real property for all or any portion of the Project. No substitution for all or any portion of the Project will be permitted under the Lease Agreement unless a certified real estate appraiser selected by the District certifies that the substituted real property (i) has a fair market rental value greater than or equal to the fair market rental value of the property to be released so that the Lease Payments secured by the Project to be released being payable by the District pursuant to the Lease Agreement will not be reduced and (ii) has an equivalent or greater useful life as the Project to be released and that the useful life of the substituted Project exceeds the remaining term of the Lease Payments. In addition, the Lease provides that upon the satisfaction of certain conditions specified therein, the District may release a portion of the Project from the Site Lease and the Lease Agreement. Such replacement or release could have an adverse impact on the security for the Certificates, particularly if an event requiring abatement of Lease Payments were to occur subsequent to such substitution.

CALIFORNIA ECONOMY

Like all California school districts, the District receives a significant portion of its funding from appropriations by the State of California. As a result of the ongoing State budget crisis, the decreases in the revenues presently being experienced by the State could affect appropriations made by the State to the District and other school districts within California. The continued deterioration of California's economy could result in declining appropriations to the District to such an extent that the District may not have sufficient funds available to make its regularly scheduled payments of principle and interest on the Certificates. See "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA – State Assistance" herein.

LOSS OF TAX EXEMPTION

As discussed under the heading "TAX MATTERS," the interest represented by the Certificates could become includable in gross income for purposes of federal income taxation retroactive to the date of delivery of the Certificates, as a result of acts or omissions of the District in violation of its representations or covenants in the Trust Agreement, the Lease Agreement or other Principal Legal Documents. Should such an event of taxability occur, the Certificates would not be subject to a special prepayment and would remain Outstanding until maturity or until prepaid under the prepayment provisions contained in the Trust Agreement. See "PREPAYMENT PROVISIONS" herein.

PROPOSED TAX LEGISLATION

Wide variations of bills are being proposed in Congress and at the State level to change the Internal Revenue Code's treatment of taxing personal, corporate and other income which may reduce tax exempt benefits available to such taxpayers from their purchase of municipal debt obligations. The District cannot and does not know the effect of the many possible financial effects on such parties that could result from enactment of any such bills or other regulatory actions proposing to change the Internal Revenue Code. Potential Owners should consult with their investment advisors in evaluating the impact of such potential changes.

INSURANCE

The District is obligated to obtain and keep in force various forms of insurance or, subject to the Lease Agreement, self insurance, subject to deductibles, for repair or replacement of the Project in the event of damage or destruction of the Project. The District makes no representation to the ability of any insurer to fulfill its obligations under any insurance policy and no assurance can be given as to the adequacy of such insurance to fund necessary repair or replacement of the Project.

DTC-BENEFICIAL OWNERS

Beneficial Owners of the Certificates may experience some delay in the receipt of distributions of principal and interest represented by the Certificates since such distributions will be forwarded by the Trustee to DTC and DTC will credit such distributions to the accounts of the Participants which will there after credit them to the accounts of the Beneficial Owner either directly or indirectly through indirect Participants. Neither the District nor the Trustee will have any responsibility or obligation to assure that any such notice or payment is forwarded by DTC to any Participants or by any Participant to any Beneficial Owner. In addition, since transactions regarding the Certificates can be effected only through DTC Participants, indirect participants and certain banks, the ability of a Beneficial Owner to pledge the Certificates to persons or entities that do not participate in the DTC system, or otherwise to take actions with respect to such Certificates, may be limited due to lack of a physical certificate. Beneficial owners will be permitted to exercise the rights of registered Owners only indirectly through DTC and the Participants. See "THE CERTIFICATES – Book-Entry Only System," herein.

LIMITATIONS OF REMEDIES

In addition to the limitations on remedies contained on the Lease Agreement, the enforceability of the rights and remedies of the owners of the Certificates and the obligations of the District may become subject to the following: the federal bankruptcy code and applicable bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or affecting the enforcement of creditors' rights generally, now or hereafter in effect; usual equitable principles which may limit the specific enforcement under state law of certain remedies: the exercise by the United States of America of the powers delegated to it by the federal Constitution; and the reasonable and necessary exercise, in certain exceptional situations of the police power inherent in the sovereignty of the State of California and its governmental bodies in the interest of servicing a significant and legitimate public purpose. Bankruptcy proceedings, or the exercise of powers by the federal or state government, if initiated, could subject the owners of the Certificates to judicial discretion and interpretation of their rights in bankruptcy or otherwise and consequently may entail risks of delay, limitation, or modification of their rights.

In the event of a bankruptcy of the District, any provision of the Lease Agreement which makes the bankruptcy of the District an event of default may be invalidated and the enforceability of the pledge pursuant to the Lease Agreement is limited in accordance with the provisions of Chapter 9 of the United States Bankruptcy Code.

PREPAYMENT PROVISION

The Certificates are subject to extraordinary prepayment (see “PREPAYMENT PROVISIONS” herein) under certain circumstances.

UNCONVENTIONAL MORTGAGE STRUCTURES

From 2002 through the first half of 2006, the California housing market experienced significant price appreciation with accelerating demand. One factor contributing to the recent housing boom in California was the use of unconventional mortgage structures, such as a cross between a fixed and adjustable rate mortgage, having a low initial (or “teaser”) fixed interest rate for several years that converts to an adjustable interest rate determined by an index plus a fixed margin, and interest-only mortgages, where the borrower pays only interest for a set period of time and then pays down the principal plus interest. Homeowners who financed the purchase of their homes with such mortgages can expect their monthly mortgage payments to increase after the initial period. As the initial low-interest or interest-only periods related to such unconventional mortgage have expired, some homeowners have not been able to maintain payments on their existing loans or to obtain refinancing loans for their homes. Foreclosure proceedings in California have also increased dramatically in 2007 and 2008. Recently there has been a general softening of the California housing market, as evidenced by a decrease in home sale prices, increasing inventory of new homes, slowing demand, and the tightening of credit by lenders. The District has not undertaken to assess the financial condition of the current owners of the residential properties within the District and expresses no view concerning these matters. The District cannot predict and expresses no view whether or how such factors may affect the District’s finances and the potential impact on the District’s budget.

OTHER RISKS

The remedies available to the Owners of the Certificates upon an event of default under the Trust Agreement, or other documents described herein are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies set forth in the Trust Agreement and the various documents relating to the Project may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Certificates will be qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by the application of equitable principles.

THE CORPORATION

The Kern Community College District Public Facilities Corporation is a nonprofit public benefit Corporation organized and existing under the laws of the State of California, and entitled, by virtue of its Articles of Incorporation and Bylaws, to purchase personal and real property and to sell or lease such property, to contract for construction and improvement and to execute operating agreements regarding such property.

The Corporation was incorporated at the request of the District for the purpose of providing financial assistance to the District by acquiring, constructing and developing certain facilities for the use and benefit of the public. Corporate Directors are appointed by the District. No assets of the Corporation have been pledged, or are available to pay the Certificates. The lien represented by the Lease Agreement on the Project, as defined herein, does not create a legal or equitable pledge, charge, lien or encumbrance upon any of the Corporation's property or upon its income, receipts or revenue, except the Lease Payment, as defined herein.

THE DISTRICT

GENERAL INFORMATION

The District encompasses 24,800 square miles, making it the largest community college district in the State. It includes most of Kern County (7,010 square miles), a small portion of San Bernardino County, the southern portion of Tulare County (2,955 square miles), and portions of Inyo and Mono Counties (totaling 12,000 square miles). The District was formed in 1961. The Tulare County portion was annexed in 1967; part of the Inyo County portion and the San Bernardino County portion were annexed in 1968; and the remainder of the Inyo County portion and the Mono County portion were annexed as of July 1, 1994.

The District currently operates three colleges campuses and six instructional centers. The largest campus is the Bakersfield Campus in Bakersfield with almost two-thirds of the approximately District-wide 17,958 full time equivalent students. The District's other two campuses are Porterville College at Porterville in Tulare County and Cerro Coso College at Ridgecrest (serving eastern Kern County and San Bernardino and Inyo Counties).

Although a largely autonomous body of higher education, the District is part of the statewide public school system for public education and as such interrelates with the Kern County Superintendent of Schools Office. The District relies upon the Kern County Treasurer's Office for investment of the District's monies. The District became fiscally independent from the Kern County Superintendent of Schools Office on July 1, 1990.

THE BOARD OF TRUSTEES

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

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Kay S. Meek	President	December 2008
Stuart O. Witt	Vice President	December 2010
John A. Rodgers	Clerk	December 2010
Rose Marie Bans	Trustee	December 2008
Dennis L. Beebe	Trustee	December 2008
John Corkins	Trustee	December 2010
Pauline F. Larwood	Trustee	December 2010

ADMINISTRATION

The Chancellor of the District is responsible for administering the affairs of the District in accordance with the policies of the Board and for the supervision of the District's other key personnel. The District's Chancellor and certain key administrative personnel are as follows:

Sandra V. Serrano, *Chancellor*. Ms. Sandra Serrano has over 26 years of experience in higher education, with both administrative and teaching experience. Prior to her appointment as Chancellor, Ms. Serrano served as the President of Bakersfield College since July 1998. She was first employed at the College in 1989 to serve as the Associate Dean of Students, and subsequently served as the Dean of Students and then Vice President of Student Services prior to her appointment as President of the College. From 1980 to 1989, Ms. Serrano served as the Director of Student Academic Services, Director, Student Programs, and Assistant Director, Student Affirmative Action, at California State University, Bakersfield. She also served as an Administrative Fellow with the California State University System and participated in the California Education Policy Fellow Program with the Institute for Educational Leadership. Ms. Serrano earned a Bachelor's Degree from the University of California, Berkeley, in Political Science, and a Juris Doctorate from Hastings College of the Law.

Thomas J. Burke, *Chief Financial Officer*. Mr. Burke serves as the District's Chief Financial Officer. Prior to that he served as the Director, Business Services, at the District's Bakersfield College; his service began in 1997. Mr. Burke earned a Bachelor's Degree in Administration-Finance from California Polytechnic University, San Luis Obispo and a Master's Degree in Business Administration from California State University, Bakersfield.

STATE FUNDING OF EDUCATION

Annual State apportionments to community college districts for general purposes are allocated through a program based funding formula per unit of full-time equivalent student ("FTES"). Such apportionments will, in general, amount to the difference between a district's program based funding level and its local property tax allocation and student enrollment fees.

Program based funding calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all California community college districts. In November 1988, California voters approved an amendment to the California Constitution, which guarantees primary and secondary education and the community college system a percentage of the state general fund budget for the 1988-98 budget year and subsequent budget years.

ENROLLMENT

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 are made to the District. Table 2 shows the District's program based funding per unit of FTES and program based funding total over the ten year period 1998-99 through 2007-08.

Table 2
KERN COMMUNITY COLLEGE DISTRICT
2008 CONVERSION OF 2004 VARIABLE RATE CERTIFICATES

FULL TIME EQUIVALENT STUDENTS (FTES)					
<u>Fiscal Year</u>	<u>FTES</u>	<u>Numerical Change</u>	<u>Percentage Change</u>	<u>Funding Per Unit of FTES</u>	<u>Total Program Based Funding⁽¹⁾</u>
1998/99	15,290	--	--	3,515.23	53,747,833
1999/00	15,743	453	2.96%	3,643.22	57,355,188
2000/01	16,309	566	3.60%	3,748.82	61,139,584
2001/02	17,248	939	5.76%	3,805.94	65,644,932
2002/03	17,794	546	3.17%	3,849.10	68,490,874
2003/04	18,319	525	2.95%	3,803.54	69,691,604
2004/05	18,766	447	2.44%	3,963.27	74,153,912
2005/06	17,631	(1,135)	6.05%	4,684.00	82,578,925
2006/07	18,288	657	3.73%	4,992.00	91,288,237
2007/08 ⁽²⁾	18,766	478	2.61%	5,089.00	95,490,876

(1) For years 2006-07 and later, figures based on SB361 allocation. See "FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA."

(2) Budgeted.

Source: District

EMPLOYEE RELATIONS

The District employs 389.09 full-time equivalent faculty and 424.75 full-time equivalent classified staff. These employees, except management, childcare staff and some part-time employees, are represented by two bargaining units in the following table:

<u>Labor Organization</u>	<u>Number of Employees in Organization</u>	<u>Contract Expiration Date</u>
Kern CCD CCA – CTA NEA	191	June 30, 2008
California School Employees Association	315	June 30, 2007 ⁽¹⁾

(1) Contract currently being renegotiated. Employees continue to work under the terms of the expired contract.

Source: The District.

STATE TEACHERS' RETIREMENT SYSTEM (STRS)

Plan Description. All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more of a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program).

Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRP), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

The STRP, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the two percent age factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied.

Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable. The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB benefit plan is optional; however, if the employee selects the CB benefit plan and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

Funding Policy. At June 30, 2007 and 2006, the District employed 394 and 436 full and part-time certificated employees with a total annual payroll of approximately \$38,704,244 and \$36,121,289, respectively, and equal 100 percent of the required contributions for each year. Active members of the DB Plan are required to contribute eight 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2006-2007 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The CB Benefit Program is an alternative STRS contribution plan for instructors. Instructors who choose not to sign up for the DB Plan or FICA may participate in the CB Benefit Program. The District contribution rate for the CB Benefit Program is always a minimum of four percent with the sum of the District and employee contribution always being equal or greater than eight percent.

Annual Pension Cost. The District's total contributions to STRS for the fiscal years ended June 30, 2007, 2006, and 2005, were \$3,528,274, \$3,406,446, and \$3,226,198, respectively and equal 100 percent of the required contributions for each year. The State of California may make additional direct payments for retirement benefits to the STRS on behalf of all community colleges in the State

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM (CALPERS)

Plan Description. All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that act as a common investment and administrative agent for participating public entities within the State of California. The Kern Community College District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit. Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from the Fund, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the California Government Code, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy. Active plan members are required to contribute seven percent 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 District's contribution rate to CalPERS for fiscal year ended June 30, 2007 and 2006 was 9.124 and 9.116 percent of annual payroll.

Annual Pension Cost. The District's contributions to CalPERS for fiscal years ending June 30, 2007, 2006, and 2005, were \$1,839,564, \$1,797,436, and \$1,910,658, respectively, and equaled 100 percent of the required contributions for each year.

POST-EMPLOYMENT BENEFITS

The District provides certain health care benefits for retired salaried employees. The District's salaried employees may become eligible for those benefits if they reach normal retirement age while working for the District. The District recognizes the cost of providing these benefits on a pay-as-you-go basis. On June 30, 2007 and 2006, 188 and 200 employees were eligible to receive those benefits. The amount of benefit expenses recognized during the years ended June 30, 2007 and 2006 for retired employees was \$5,014,306 and \$4,687,489, respectively.

The Governmental Accounting Standards Board recently published its Statement No. 45, which will require governmental agencies such as the District (beginning for the District with the fiscal year ending June 30, 2008), to account for and report the outstanding obligations and commitments related to such post employment benefits in essentially the same manner as for pensions.

The District commissioned a study by Total Compensation, Inc. dated September 24, 2007 (the "Actuarial Study"), with respect to the District's liability in connection with such post employment health care benefits. The Actuarial Study concluded that as of September 1, 2007, (i) the unfunded accrued actuarial liability ("UAAL") for such post employment benefits was \$117,702,672 and (ii) the actuarial

present value of projected post employment benefits for current employees and retirees was \$131,742,813. The Actuarial Study also concluded that the annual required contribution necessary to amortize the UAAL over 30 years and pay the normal cost of post employment benefits as they accrue would be \$6,703,532 for the year beginning September 1, 2007.

As of June 30, 2007, the District had deposited \$314,000 in respect of its UAAL with the Community College League of California's Retiree Health Benefits Joint Powers Authority. The District is in the process of refinancing its UAAL with the issuance of refunding bonds in the principal amount of approximately \$80 million, and expects to issue such bonds during the 2008 calendar year.

DISTRICT FINANCIAL INFORMATION

DISTRICT FINANCIAL STATEMENTS

Excerpts from the District's audited financial statements for Fiscal Year 2006-2007 are attached hereto as APPENDIX A. The financial statements should be read in their entirety, including all footnotes, opinions and qualifying statements. The information set forth herein does not purport to be a summary of the District's financial statements.

DISTRICT BUDGET

The District is required by State Law to adopt a final budget on or before September 15 in each year. The 2007-08 Final Budget has been adopted by the District. Throughout the fiscal year, all revenues and appropriations are subject to review and since the budget must remain in balance, any shortfall in revenues could require a reduction in appropriations.

Any reductions in State aid and other funding sources would be met by decreasing any reserves or by a reduction in expenditures or a combination of the two. The District does not expect that reductions in income, if any, will have any impact on the District's ability to pay the Certificates described in this official statement. State law requires local government to maintain a balanced budget and the District anticipates that it will comply with this State requirement.

The estimates of amounts and timing of revenues and disbursements in the tables on the following pages are based on present circumstances and currently available information and are believed to be reasonable. The assumption may be affected by numerous factors and there can be no assurances that such estimates will be achieved.

ACCOUNTING PRACTICES

The accounting practices of the District conform to generally accepted accounting principles in accordance with policies and procedures of the California Colleges Budgeting and Accounting Manual. This manual, according to Section 84030 of the California Education Code, is to be followed by all California community college districts.

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

District expenditures are accrued at the end of the fiscal year to reflect the receipt of goods and services in that year. Revenues generally are recorded on a cash basis, except for items that are susceptible to accrual (measurable and/or available to finance operations). Current taxes are considered susceptible to accrual. Revenues from specific state and federally funded projects are recognized when qualified expenditures have been incurred. State block grant apportionments are accrued to the extent that they are measurable and predictable. The State Department of Education sends the District updated information from time to time explaining the acceptable accounting treatment of revenue and expenditure categories.

Generally, the basic financial statements and required supplementary information should include (i) Management's Discussion and Analysis; (ii) financial statements prepared using the economic measurement focus and the accrual basis of accounting and (iii) fund financial statements prepared using the current financial resources measurement focus and the modified accrual method of accounting and (iv) required supplementary information.

The outside auditors for the District currently are Nystrom & Company LLP, Certified Public Accountants, Redding, California. Excerpts from the audited financial statement for Fiscal Year ended June 30, 2007 is attached hereto as APPENDIX A.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

SUMMARY OF REVENUES, EXPENDITURES AND FUND BALANCES

The following Table 3 presents the statements of revenues, expenditures and fund balances of the District's General Fund for the past three years.

Table 3
KERN COMMUNITY COLLEGE DISTRICT
2008 CONVERSION OF 2004 VARIABLE RATE CERTIFICATES

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS			
	<u>Audited</u> <u>2004-05</u>	<u>Audited</u> <u>2005-06</u>	<u>Audited</u> <u>2006-07</u>
OPERATING REVENUES			
Enrollment, tuition and other fees	\$12,667,663	\$13,580,091	\$13,327,820
Less: scholarship discounts and allowances	<u>(6,431,153)</u>	<u>(7,248,443)</u>	<u>(6,160,541)</u>
Net enrollment, tuition and other fees	6,236,510	6,331,648	7,216,752
Federal revenues	23,562,415	22,939,405	22,574,784
State revenues	21,135,211	17,429,044	19,152,136
Local	6,476,770	1,819,530	1,679,494
Auxiliary enterprise sales and charges	7,456,157	7,729,547	8,229,636
Other operating revenues	<u>936,834</u>	<u>1,691,159</u>	<u>1,777,790</u>
Total Operating Revenues	\$65,803,897	\$57,940,333	\$60,581,119
OPERATING EXPENSES:			
Salaries	67,487,737	69,182,428	73,316,544
Employee Benefits	24,161,385	23,859,161	24,730,605
Payments to students	20,838,049	20,676,711	21,038,446
Supplies, materials and other operating expenses	18,469,920	18,128,949	21,849,758
Utilities	3,153,667	3,127,226	3,694,867
Depreciation	<u>4,003,122</u>	<u>4,586,046</u>	<u>5,661,500</u>
Total Operating Expenses	<u>138,113,880</u>	<u>139,560,521</u>	<u>150,291,720</u>
OPERATING INCOME (LOSS)	(\$72,309,983)	(\$81,620,188)	(\$89,710,601)
NON-OPERATING REVENUES (EXPENSES)			
State apportionments, non-capital	34,947,966	43,243,104	50,004,668
Local property taxes	38,343,254	34,830,249	38,323,413
State taxes and other revenues	3,737,473	3,585,297	3,514,057
Investment income, non capital	5,401,769	4,743,289	8,591,861
Interest expense, capital asset related debt	(7,978,406)	(8,995,522)	(10,456,787)
Other non-operating expense	<u>(1,310,713)</u>	<u>(1,048,745)</u>	<u>(901,144)</u>
Total non-operating revenues (expenses)	73,141,343	76,357,672	89,076,068
INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES	831,360	(5,262,516)	(634,533)
State apportionments, capital	7,625,373	6,842,532	4,618,923
Local property taxes and revenues, capital	<u>6,590,959</u>	<u>7,015,572</u>	<u>6,275,200</u>
INCREASE IN NET ASSETS	\$15,047,692	\$8,595,588	\$10,259,590
NET ASSETS, BEGINNING OF YEAR:	<u>\$105,561,740</u>	<u>\$120,609,432</u>	<u>\$129,205,020</u>
NET ASSETS, END OF YEAR:	<u>\$120,609,432</u>	<u>\$129,205,020</u>	<u>\$139,464,610</u>

Source: District Audited Financial Statements

The following Table 4 presents the statement of net assts of the District for the past two years.

Table 4
KERN COMMUNITY COLLEGE DISTRICT
2008 CONVERSION OF 2004 VARIABLE RATE CERTIFICATES

STATEMENT OF NET ASSETS		
ASSETS	2005-2006	2006-2007
Current Assets:		
Cash and cash equivalents	\$9,879,672	\$13,543,328
Restricted Cash	90,344,391	136,442,083
Accounts receivable, net	13,670,320	15,713,273
Prepaid expenses	559,411	503,169
Inventory	1,440,789	1,400,511
Total Current Assets	115,894,583	167,602,364
Noncurrent Assets:		
Restricted Investments	40,441,307	45,041,126
Depreciable capital assets, net	127,267,797	126,952,944
Nondepreciable capital assets	46,295,041	51,932,133
Deferred costs, net	4,193,820	4,762,228
Total Noncurrent Assets	218,197,965	228,688,431
TOTAL ASSETS	\$334,092,548	\$396,290,795
LIABILITIES		
Current Liabilities:		
Accounts payable	\$10,915,130	\$10,471,408
Deferred revenue	2,689,189	3,483,903
Compensated absences, current portion	241,283	1,637,790
Long-term debt, current portion	3,701,792	4,238,384
Amounts held for others	1,138,960	1,122,394
Total current liabilities	18,686,354	20,953,879
Non-Current Liabilities:		
Compensated absences, noncurrent portion	2,021,184	749,970
Long-term debt, noncurrent portion	184,179,990	235,122,336
Total non-current liabilities	186,201,174	235,872,306
TOTAL LIABILITIES	204,887,528	256,826,185
NET ASSETS		
Invested in capital assets, net of related debt	51,689,011	55,447,680
Restricted – expendable	24,806,903	27,849,093
Unrestricted	52,709,106	56,167,837
TOTAL NET ASSETS	129,205,020	139,464,610
TOTAL LIABILITIES AND NET ASSETS	\$334,092,548	\$396,290,795

Source: District Audited Financial Statements

REVENUE SOURCES

As is true for all college districts in California, the District's operating income consists primarily of three components: (i) a State portion funded from the State's general fund; (ii) a local portion derived from the District's share of the 1% local ad valorem property tax authorized by the State Constitution; and (iii) revenues generated from District operations. State funds include general apportionment, categorical funds, capital construction, the lottery (which is about two percent) and other minor sources. The federal government provides funding for several District programs, including job training, financial aid and vocational education programs. Most of the federal revenues are restricted.

The State calculates the allocation for each community college district based on both State and local resources. Funds are allocated to the colleges using a program-based model. The model uses different factors to establish support levels for five different programs or functions: (i) Instruction and Instructional Administration, (ii) Instructional Services, (iii) Student Services, (iv) Operation and Maintenance of Plants, and (v) Institutional Support.

FUNDING OF DISTRICT OPERATIONS

General. As stated above, community college districts derive income primarily from State general fund apportionments, local property tax funding and revenues generated from district operations. District operating revenues consist of tuition and fees, certain grants and contracts under which districts receive payments, and revenues from auxiliary enterprise activities of districts. College districts may also be eligible for special categorical funding, including for mandated State and federal programs. State lottery funds also constitute a portion of college district revenues.

Additional Revenues. The balance of the District's general fund revenues in each fiscal year are derived from auxiliary enterprise revenues (such as bookstore, cafeteria and I.T. operations), lottery income, non-resident tuition, special purpose apportionments, interest, and miscellaneous other sources. Lottery funds may not be used for non-instructional purposes, such as the payment of acquisition of real property, the construction of facilities or the financing of research. The District's restricted general fund revenues come, in part, from State funding earmarked for specific categorical programs. The volume and allocation of categorical funding is subject to the discretion of the State legislature and the District's continued qualification for each such program.

Under California law, a city or county can create a redevelopment agency in territory within one or more college districts. Upon formation of a "project area" of a redevelopment agency, all property tax revenues attributable to the growth in assessed value of taxable property within the project area (known as "tax increment") belong to the redevelopment agency, causing a loss of tax revenues to other local taxing agencies, including college districts, from that time forward. For districts that are not self-supporting, any loss of local property taxes is made up by an increase in State equalization aid, until the base revenue limit is reached. For self-supporting districts, the loss of tax revenues is not reimbursed by the State. In neither case are taxes collected for payment of debt service on school and community college district general obligation bonds affected or diverted. Certain college districts may enter into "pass-through agreements" with their local redevelopment agencies in order to receive a portion of the tax increment revenue that would otherwise belong to the redevelopment agency (provided such revenue is not pledged and needed to pay debt service on redevelopment agency tax-increment bonds), and in some

cases the pass-through is mandated by statute (in which case it cannot be pledged to pay redevelopment agency bonds).

REVENUE LIMITATIONS

Since fiscal year 1973-74, California school and community college districts, including the District, have operated under general purpose revenue limits established by the State Legislature. Funding of the revenue limits is accomplished by a mix of local property tax and State aid. Prior to the passage of Article XIII A of the California Constitution in 1978, local property taxes constituted approximately 63% of revenue limit income. Since then, property taxes received by the District is limited to its share of the one percent ad valorem property tax collected by the County as described below under the heading “DISTRICT FINANCIAL INFORMATION – Ad Valorem Property Taxation”. In addition, for fiscal years 1992-93 through 1995-96, community redevelopment agencies were required to deposit certain amounts into the county-wide Education Revenue Augmentation Fund (“ERAF”) for subsequent distribution to schools and community college district’s within the county. Such amounts will reduce the amounts otherwise to be appropriated by the State. Annual State appropriations to school districts and community college districts for general purposes are computed up to a revenue limit per unit of average daily attendance for school districts, and full-time equivalent students for community college districts. Such apportionments will, generally speaking, amount to the difference between the District’s revenue limit and the District’s local property tax and ERAF allocations. Revenue limit calculations are adjusted annually in accordance with a number of factors.

AD VALOREM PROPERTY TAXATION

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

Property taxes on the secured roll are due in two installments, on December 1 and April 1 of each fiscal year. If unpaid, such taxes become delinquent on December 10 and April 10, respectively, and a ten percent (10%) penalty attaches to any delinquent payment. In addition, property on the secured roll with respect to which taxes are not paid after one year is “tax delinquent”. Such property may thereafter be redeemed by payment of the delinquent taxes and the delinquent penalty, plus a prepayment penalty of one and one-half percent (1.5%) per month to the time of prepayment. If taxes are unpaid for a period of five years or more, a notice of power to sell is recorded and is then subject to public auction or sale by the County Treasurer/ Tax Collector.

Property taxes on the unsecured roll are due as of the March 1 lien date and become delinquent, if unpaid, on August 31 of each fiscal year. A ten percent (10%) penalty attaches to delinquent taxes on property of the unsecured roll, and an additional penalty of one and one-half percent (1.5%) per month begins to accrue beginning December 1 of the fiscal year. The taxing authority has four ways of collecting unsecured personal property taxes: (a) a civil action against the taxpayer; (b) filing a certificate in the office of the County Clerk specifying certain facts in order to obtain a judgment lien on certain property of the taxpayer; (c) filing a certificate of delinquency for record in the County Recorder’s Office, in order to

obtain a lien on certain property of the taxpayer; and (d) seizure and sale of personal property, improvements or possessory interest belonging or assessed to the assessee.

Assessed valuations include secured and unsecured properties assessed by the County Assessor, and secured utility properties assessed by the State Board of Equalization. Such assessed valuations exclude State reimbursed homeowner's and business inventory exemptions and exclude veterans, religious, charitable, and other such nonrecoverable exemptions. In 1981-82, the assessed valuation became equivalent to the fair market valuation.

The following Table 5 shows a summary of the District's historical assessed valuations for Fiscal Year 2007-2008.

Table 5
KERN COMMUNITY COLLEGE DISTRICT
2008 CONVERSION OF 2004 VARIABLE RATE CERTIFICATES

SUMMARY OF ASSESSED VALUATIONS					
<u>Jurisdiction</u>	<u>Local Secured</u>	<u>Utility</u>	<u>Unsecured</u>	<u>Total Before Rdv. Increment</u>	<u>Total After Rdv. Increment</u>
Kern County Portion	\$63,406,654,343	\$719,971,062	\$2,476,783,453	\$66,603,408,858	\$63,436,764,812
Tulare County Portion	5,087,661,037	4,069,549	204,826,438	5,296,557,024	5,092,563,490
San Bernardino County Portion	210,161,531	95,417	3,088,026	213,344,974	213,344,974
Inyo County Portion	2,920,454,727	0	493,339,004	3,413,793,731	3,413,793,731 ⁽¹⁾
Mono County Portion	4,227,352,327	0	255,376,844	4,482,729,171	4,482,729,171
Total	<u>\$75,852,283,965</u>	<u>\$724,136,028</u>	<u>\$3,433,413,765</u>	<u>\$80,009,833,758</u>	<u>\$76,639,196,178</u>

Source: California Municipal Statistics, Inc.

PARCELS BY LAND USE

The following Table 6 presents an analysis of the District's secured assessed valuation by land use for fiscal year 2007-08.

Table 6
KERN COMMUNITY COLLEGE DISTRICT
2008 CONVERSION OF 2004 VARIABLE RATE CERTIFICATES

SECURED ASSESSED VALUATION AND PARCELS BY LAND USE				
	<u>2007-08 Assessed Valuation⁽¹⁾</u>	<u>% of Total</u>	<u>No. of Parcels</u>	<u>% of Total</u>
Non-Residential:				
Agricultural	\$257,907,326	12.10%	46,523	10.58%
Commercial	190,792,549	8.03	7,965	1.81
Professional/Office	1,486,214,524	1.96	2,216	0.50
Industrial	7,093,412,458	9.35	2,569	0.58
Oil/Mineral Rights	13,568,521,859	17.89	7,458	1.70
Recreational	240,362,778	0.32	712	0.16
Government/Social/Institutional	600,416,221	0.79	36,542	8.13
Miscellaneous	<u>12,827,060</u>	<u>0.02</u>	<u>1,529</u>	<u>0.35</u>
Subtotal Non-Residential	\$38,266,094,889	50.45%	105,514	24.01%
Residential:				
Single Family Residence	\$29,841,033,771	39.34%	171,542	39.03%
Condominium/Townhouse	1,061,512,364	1.40	8,965	2.04
Mobile Home	214,503,060	0.28	7,227	1.64
Mobile Home Park	136,483,692	0.18	356	0.08
2-4 Residential Units	1,504,213,450	1.98	8,994	2.05
5+ Residential Units	<u>2,735,041,740</u>	<u>3.61</u>	<u>2,416</u>	<u>0.55</u>
Subtotal Residential	\$35,492,788,077	46.79%	199,500	45.39%
Vacant Parcels	\$2,093,400,999	02.76%	134,526	30.61%
Total	\$75,852,283,965	100.00%	439,540	100.00%

(1) Local Secured Assessed Valuation; excluding tax-exempt property.

Source: California Municipal Statistics, Inc.

LARGEST TAXPAYERS

The twenty largest assessed property owner taxpayers in the District for the fiscal year 2007-2008 are shown in Table 7 below.

Table 7
KERN COMMUNITY COLLEGE DISTRICT
2008 CONVERSION OF 2004 VARIABLE RATE CERTIFICATES

LARGEST 2007-08 LOCAL SECURED TAXPAYERS			
<u>Property Owner</u>	<u>Primary Land Use</u>	<u>2007-2008 Assessed Valuation</u>	<u>% of Total ⁽¹⁾</u>
1. Occidental of Elk Hills Inc.	Oil and Gas Production	\$ 3,309,028,309	4.36%
2. Chevron USA Inc.	Oil and Gas Production	2,979,014,392	3.93
3. Aera Energy LLC	Oil and Gas Production	2,147,657,801	2.83
4. Los Angeles Dept of Water and Power	Water and Power Facilities	1,561,682,340	2.06
5. U.S. Borax Inc.	Industrial	401,160,546	0.53
6. Pastoria Energy Facility, Inc.	Oil and Gas Production	370,800,000	0.49
7. Elk Hills Power, LLC	Power Facilities	291,170,510	0.38
8. William Bolthouse Farms	Agricultural/Food Processing	290,865,555	0.38
9. Exxon Mobile Corp.	Oil and Gas Production	267,371,835	0.35
10. National Cement Co. of California	Industrial	240,891,623	0.32
11. Sycamore Cogeneration Co.	Cogeneration Facilities	235,475,000	0.31
12. Dreyers Grand Ice Cream Inc.	Industrial	224,148,272	0.30
13. Oxy USA, Inc.	Oil and Gas Production	194,786,629	0.26
14. Grimmway Enterprises Inc.	Industrial	186,666,585	0.25
15. Seneca Resources Corp.	Oil and Gas Production	178,327,579	0.24
16. Bakersfield Mall LLC	Shopping Center/Mall	152,546,451	0.20
17. Paramount Farms Inc.	Agricultural	152,398,896	0.20
18. Big West of California LLC	Industrial	137,356,299	0.18
19. Calaveras Cement Co.	Industrial	134,803,409	0.18
20. Vintage Production California LLC	Oil and Gas Production	<u>130,164,549</u>	<u>0.17</u>
Totals		\$13,586,316,580	17.91%

(1) 2007-08 Local secured Assessed Valuation: \$75,852,283,965

Source: California Municipal Statistics, Inc.

DISTRICT DEBT STRUCTURE

Long-Term Debt Summary. In accordance with the District's most recent Audited Financial Statements, the following Table 8 demonstrates the schedule of long-term debt, and the corresponding changes thereto, for the Fiscal Year ended June 30, 2007:

Table 8
KERN COMMUNITY COLLEGE DISTRICT
2008 CONVERSION OF 2004 VARIABLE RATE CERTIFICATES

LONG TERM DISTRICT DEBT				
<u>Description of Debt Instrument</u>	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>
Certificates of Participation ⁽¹⁾	\$ 85,031,225	\$-----	\$(516,418)	\$ 84,514,807
Limited Obligation Bonds	6,555,247		510,106	6,045,141
Lease Obligation	46,704	-----	(16,790)	29,914
General Obligation Bonds Payable	<u>96,248,606</u>	<u>55,799,480</u>	<u>(3,277,228)</u>	<u>148,770,858</u>
Totals:	<u>\$4,324,900</u>	<u>\$2,946,254</u>	<u>\$(915,500)</u>	<u>\$25,063,025</u>
Compensated Absences	<u>2,262,467</u>	<u>1,763,083</u>	<u>1,637,790</u>	<u>2,387,760</u>
Totals:	<u>\$190,144,249</u>	<u>\$57,562,563</u>	<u>\$5,958,332</u>	<u>\$241,748,480</u>

(1) The District issuing the Certificates to refund and replace a portion of these Certificates of Participation.

FISCAL ACCOUNTABILITY

The statewide governing board of the California Community Colleges (the “Board of Governors”) and the State Chancellor’s Office of the California Community Colleges 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 State 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.

DIRECT AND OVERLAPPING BONDED DEBT

The following statement of the District’s direct and overlapping bonded indebtedness, as of April 1, 2008 was prepared by California Municipal Statistics, Inc., San Francisco, California (the “Debt Report”). 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 public agency are payable only from the general fund or other revenues of such public agency.

The contents of the Debt Report area as follows: (1) the first column indicates the public agencies which have outstanding debt as of the date of the debt report and whose territory overlaps the District in whole or in part; (2) the second column shows the percentage that the District’s assessed valuation represents of the total assessed valuation of each public agency identified in column 1; and (3) the third column is an apportionment of the dollar amount of each public agency’s outstanding debt to property in the District, as determined by multiplying the total outstanding debt of each agency by the percentage of the District’s assessed valuation represented in column 2.

Table 9
KERN COMMUNITY COLLEGE DISTRICT
2008 CONVERSION OF 2004 VARIABLE RATE CERTIFICATES

STATEMENT OF DIRECT AND OVERLAPPING BONDED DEBT			
2007-08 Assessed Valuation:	\$80,045,910,181		
Redevelopment Incremental Valuation:	<u>3,488,446,608</u>		
Adjusted Assessed Valuation:	\$76,557,463,573		
DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:			
	% Applicable	Debt 4/1/08	
Kern Community College District School Facilities Improvement Districts	100. %	\$ 129,580,605	
Mojave Unified School District School Facilities Improvement District No. 1	100.	28,888,433	
Porterville Unified School District School Facilities Improvement District No. 1	100.	22,429,320	
Tehachapi Unified School District	100.	21,534,963	
Other Unified School Districts	92.987-100.	53,638,833	
Delano Joint Union High School District	100.	50,710,000	
Kern County Union High School District	100.	240,740,000	
Other High School Districts	100.	10,000,000	
Bakersfield City School District	100.	52,090,027	
Beardsley School District	100.	16,519,898	
Delano Union School District	100.	44,621,504	
Fruitvale School District	100.	19,635,000	
Greenfield Union School District	100.	19,343,406	
Other School Districts	100.	98,485,299	
Water Districts	Various	2,633,729	
Water Storage Districts	Various	11,320,221	
Healthcare Districts	100.	49,468,043	
Bear Valley Community Services District, I.D. No. 2	100.	5,195,000	
City and Special District Community Facilities Districts	100.	95,740,000	
City and Special District 1915 Act Bonds	100.	96,773,000	
Kern Community College District Assessment District	100.	5,560,000	
TOTAL GROSS DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,074,907,281	
Less: Water Storage District's self-supporting bonds		<u>4,980,221</u>	
TOTAL NET DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT		\$1,069,927,060	

(continued on next page)

<u>DIRECT AND OVERLAPPING GENERAL FUND DEBT:</u>	<u>% Applicable</u>	<u>Debt 4/1/08</u>
Kern County Certificates of Participation	85.100%	\$ 43,001,030
Kern County Pension Obligations	85.100	408,566,008
Kern County Board of Education Certificates of Participation	85.100	48,600,610
Inyo County Certificates of Participation	100.	850,000
San Bernardino County General Fund and Pension Obligations	0.175	2,562,973
San Bernardino County Flood Control General Fund Obligations	0.175	223,344
Tulare County General Fund Obligations	21.812	18,210,839
Tulare County Pension Obligations	21.812	4,655,771
Kern Community College District Certificates of Participation	100.	86,675,000 (1)
Unified School District General Fund Obligations	100.	21,360,578
Kern High School District Certificates of Participation	100.	124,900,000
High School and School District General Fund Obligations	100.	79,355,000
City of Bakersfield General Fund Obligations	100.	31,930,000
City of Porterville Certificates of Participation	100.	24,035,000
Other City General Fund Obligations	100.	17,005,686
Mammoth Lakes Fire Protection District Certificates of Participation	100.	155,000
TOTAL DIRECT AND OVERLAPPING GENERAL FUND DEBT		\$912,086,839
 GROSS COMBINED TOTAL DEBT		 \$1,986,994,120 (2)
NET COMBINED TOTAL DEBT		\$1,982,013,899

(1) Includes certificates of participation to be remarketed.

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

Ratios to 2007-08 Assessed Valuation:

Direct Debt (\$135,140,605) 0.17%
Total Gross Overlapping Tax and Assessment Debt 1.34%
Total Net Overlapping Tax and Assessment Debt 1.34%

Ratios to Adjusted Assessed Valuation:

Combined Direct Debt (\$221,815,605) 0.29%
Gross Combined Total Debt 2.60%
Net Combined Total Debt 2.59%

STATE SCHOOL BUILDING AID REPAYABLE AS OF 6/30/07: \$9,801

Source: California Municipal Statistics, Inc.

ALTERNATIVE METHOD OF THE APPORTIONMENT – “TEETER PLAN”

Certain counties in the State of California operate under a statutory program entitled Alternative Method of Distribution of Tax Levies and Collections and of Tax Sale Proceeds (the “Teeter Plan”). Under the Teeter Plan, local taxing entities receive 100% of their tax levies net of delinquencies, but do not receive interest or penalties on delinquent taxes collected by the county.

The Boards of Supervisors of the Counties have each approved the implementation of the “Teeter Plan” within their respective counties, as provided for in Section 4701 et seq. of the California Revenue and Taxation Code. Under the Teeter Plan, each participating local agency levying property taxes, including school districts, receives from its county the amount of uncollected taxes credited to its fund, in the same manner as if the amount credited had been collected. In return, the county receives and retains delinquent payments, penalties and interest as collected, that would have been due the local agency. The Teeter Plan, once adopted by a county, remains in effect unless the county board of supervisors orders its discontinuance or unless, prior to the commencement of any fiscal year, the board of supervisors receives a petition for its discontinuance from two-thirds of the participating revenue districts in the county.

A board of supervisors may, after holding a public hearing on the matter, discontinue the procedures under the Teeter Plan with respect to any tax levying agency in the county when delinquencies for taxes levied by that agency exceed 3%. The Teeter Plan applies to the 1% general purpose property tax levy. Whether or not the Teeter Plan also is applied to other tax levies for local agencies, such as the tax levy for general obligation bonds of local agencies, varies by county.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

ARTICLE XIII A

On June 6, 1978, California voters approved Proposition 13, which added article XIII A to the California Constitution (“Article XIII A”), Article XIII A of the State Constitution limits the amount of *ad valorem* taxes on real property to 1% of “full cash value” as determined by the county assessor. Article XIII A defines “full cash value” to mean “the county assessor’s valuation of real property as shown on the fiscal year 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. 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 XIII A 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 special transaction tax on real property. Article XIII A exempts from the 1% tax limitations any taxes above that level required to pay debt service (a) on any indebtedness approved by the voters prior to July 1, 1978, and (b) as a result of the amendment approved by California voters on June 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. In addition, Article XIII A 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.

COURT CHALLENGES TO ARTICLE XIII A

The United States Supreme Court in 1989 struck down as a violation of equal protection certain property tax assessment practices in West Virginia which had resulted in vastly different assessments of similar properties. Since Article XIII A proves that property may only be reassessed to reflect increasing value not to exceed 2% per year, except upon change of ownership or new construction, recent purchasers may pay substantially higher property taxes than long-time owners of comparable property in a community. The Supreme Court in West Virginia case expressly declined to comment in any way on the constitutionality of Article XIII A.

Three lawsuits challenging the assessment provisions of Article XIII A were filed in California and dismissed by the Trial Courts. In December of 1990 the State Courts of Appeal upheld Article XIII A in two of these three cases and the third appeal, upholding Proposition 13, was resolved in April of 1991. On February 28, 1991, the California Supreme Court declined to hear the further appeals of the two cases decided by the state Courts of Appeal. The United States Supreme Court accepted for review, *Nordlinger v. Lynch*, a suit which challenged Article XIII A. In June of 1992, the Supreme Court announced its decision upholding the Constitutionality of Proposition 13. The Supreme Court held that the acquisition value property tax system established by Proposition 13 does not violate the Constitution's equal protection clause.

LEGISLATION IMPLEMENTING ARTICLE XIII A

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

That portion of annual property tax revenues generated by increase in assessed valuations within each tax rate area within a county, subject to redevelopment agency, if any, claims on tax increment and subject to change in organizations, if any, of affected jurisdictions, is allocated to each jurisdiction within the tax rate area in the same proportion that the total property tax revenue from the tax rate area for the prior year was allocated to such jurisdictions.

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 "situation." Any such allocation made to a local Agency continues as part of its allocation in future years.

Beginning in fiscal year 1981-82, assessors in California no longer record property values on tax rolls at the assessed value of 25% of market value which was expressed as \$4 per \$100 of assessed value. All taxable property is now shown at 100% of assessed value on the tax rolls. Consequently, the tax rate is expressed as \$1 per \$100 of taxable value (unless noted differently) and all tax rates reflect the \$1 per \$100 of taxable value.

STATE LOTTERY-PROPOSITION 37

In the December 1984 general election, the voters of the State approved Proposition 37, a constitutional amendment establishing a State lottery (the “State Lottery”), the net revenues of which area used to supplement money to public education. The amendment prohibited the use of funds derived from the State Lottery for non-instructional purposes, such as the acquisition of real property, the construction of facilities or the financing of research. State Lottery revenues (gross revenue less prizes and administration expenses) are allocated by computing an amount per total average daily attendance A.D.A. or full time equivalent students (“F.T.E.S.”), i.e., by dividing the total net revenues figures by the total A.D.A. for grades K-12 and F.T.E.S. for community colleges, and by the total F.T.E.S. for each University of California System and California State University System. Each entity receives an amount equal to its total A.D.A. or F.T.E.S., as applicable, multiplied by the per A.D.A. or F.T.E.S. figure.

PROPOSITION 62

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

California Appellate Court cases have been overturned the provisions of Proposition 62 pertaining to the imposition of taxes for general government purposes. However, the California Supreme Court upheld Proposition 62 in its decision on August 28, 1995, in *Santa Clara County Transportation Authority v. Guardino*. This decision reaffirmed the constitutionality of Proposition 62. Certain matters regarding Proposition 62 were not addressed in the Supreme Court’s decision, such as what remedies exist for taxpayers subject to the tax not in compliance with Proposition 62, and whether the decision applies to charter cities. The District has not experienced any substantive adverse financial impact as a result of the passage of this initiative.

ARTICLE XIII B

In a special election on December 6, 1979, the voters approved Proposition 4, which added Article XIII B to the California Constitution. Article XIII B became effective July 1, 1979, and provided that state and local government appropriations from certain revenue sources each year could not exceed the appropriations limit related to such revenue beginning in fiscal year 1978-79, with annual adjustments for changes in the cost of living and the change in population. Any surplus revenues were required to be returned to the taxpayers. The measure also provided for emergency situations, revisions of the

appropriations limit by a vote of the electorate, nonimpairment of bonds, reorganizations of governmental entities, and other miscellaneous provisions. Article XIII B has been subsequently modified details of which are described below.

AMENDMENTS TO ARTICLE XIII B

Article XIII B of the State Constitution, as subsequently amended by Proposition 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 through voter approval of Proposition 111 in June 1990, for fiscal years beginning on or after July 1, 1990, the appropriations limit of each school or community college district shall be the appropriations limit for the fiscal year 1986-87 adjusted annually for changes made from that fiscal year in the cost of living and in population, and adjusted, where applicable, for transfer of financial responsibility of providing services to or from another unit of government. The change in cost of living is, at such entity's option, either (a) the percentage change in California per capita personal income, or (b) the percentage change in the local assessment roll for the jurisdiction due to the addition of nonresidential new construction. The change in population is blended average of overall state and population growth and the change in school attendance at local school and community college district.

Appropriations subject to Article XIII B include generally any authorization to expend during the fiscal year the proceeds of taxes levied by the State or other entity of local government, exclusive of certain State subventions, refunds or taxes, benefit payments from retirement, unemployment insurance and disability insurance funds. "Proceeds of taxes" include, but are not limited to, all tax revenues and the proceeds to any entity of government from (a) regulatory licenses, user charges, and user fees to the extent such proceeds exceed the cost of providing the service or regulation, (b) in investment of tax revenues and (c) certain State subventions received by local governments.

Appropriations subject to limitation pursuant to Article XIII B do not include debt service on indebtedness existing or legally authorized as of January 1, 1979, on bonded indebtedness thereafter approved according to law by a vote of the electors of the issuing entity voting in an election for such purpose, appropriations required to comply with mandates of courts or the federal government, appropriations for qualified capital outlay projects, and appropriations by the State of revenues derived from any increase in gasoline taxes and motor vehicle weight fees above January 1, 1990 levels.

State legislation implementing Proposition 111 provides for the exclusion from the appropriations subject to limitation "an appropriation for a fixed asset (including land and construction) with a useful life of 10 or more years and a value which equals or exceeds one hundred thousand dollars."

Article XIII B permits any government entity to change the appropriations limit by vote of the electorate in conformity with statutory and constitutional voting requirements, but any such voter-approved change can only be effective for a maximum of four (4) years.

Article XIII B 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 approved 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 XIIC AND ARTICLE XIID

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 XIIC and XIID, 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 XIIC established 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 XIIC further provides that no tax may be assessed on property other than *ad valorem* property taxes imposed in accordance with Articles XII and XIIA of the California Constitution and special taxes approved by a two-thirds vote under Article XIIC, Section 4. Article XIID deals with assessments and property-related fees and charges, and explicitly provides that nothing in Article XIIC or XIID will be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development.

The District has not historically been funded through the imposition of special taxes of general taxes not already subject to 2/3 voter approval. Proposition 218 could restrict the District’s ability to raise future revenues and could subject existing sources of revenue to reduction or repeal.

UNITARY PROPERTY

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

Until fiscal year 2000-01, SBE assessment of investor-owned gas and electric companies incumbent local exchange companies, AT&T Corp., and AT&T Communications of California, inc., will be subject to a court-approved agreement dated May 1, 1992 (the “Settlement Agreement”), among those companies, the SBE and all California Counties, the Settlement Agreement arose from litigation against SBE in which the court held that the SBE’s valuation approaches had overvalued AT&T’s unitary property, and ordered AT&T’s statewide assessed value to be reduced from approximately \$1.75 billion to approximately \$1.1 billion, the Settlement Agreement provides that its valuation method is not intended to be precedent for calculation fair market value of unitary property in years following its expiration.

While the settlement Agreement had been in effect, the California electric utility industry has been undergoing significant changes in its structure and in the way in which components of the industry are regulated and owned. Sale of electric generation assets to largely unregulated, non-utility companies may affect how those assets are assessed, and which local agencies are to receive the property tax revenues, or whether legislation maybe proposed or adapted in response to industry restructuring, or whether any future litigation may affect the State's methods of assessing utility property and the allocation of assessed value to local taxing agencies, including the District. The District is unable to predict the impact of these changes on its utility property tax revenues, or whether legislation may be proposed or adopted in response to industry restructuring, or whether any future litigation may affect 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 District.

PROPOSITIONS 98 AND 111

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

The Accountability Act also changes how tax revenues in excess of the State appropriations limit are distributed. Any excess State tax revenues up to a specified amount would, instead of being returned to taxpayers, be transferred to K-14 districts. Any such transfer to K-14 districts would be excluded from the appropriations limit for K-14 school districts and the K-14 school district appropriations limit for the next year would increase by the amount of such transfer. These additional moneys would enter the base funding calculation for K-14 school districts for subsequent years, creating further pressure on other portions of the State budget, particularly if revenues decline in a year following an Article XIIB surplus. The maximum amount of excess tax revenues which could be transferred to K-14 school districts is 4% of the minimum State spending for education mandated by the Accountability Act.

Since the Accountability Act is unclear in some details, there can be no assurances that the Legislature or a court might not interpret the accountability Act to require a different percentage of General Fund revenues to be allocated to K – 14 school districts, or to apply the relevant percentage to the State's budgets in a different way than is proposed in the governor's Budget. In any event, the governor and other fiscal observers expect the Accountability Act to place increasing pressure on the State's budget over future years, potentially reducing resources available for other State programs, especially to the extent the Article XIIB spending limit would restrain the State's ability to fund such other programs by raising taxes.

On July 5, 1990, the voters approved Proposition 111 (Senate Constitutional Amendment No. 1) called the "Traffic Congestion Relief and Spending Limit Act of 1990" ("Proposition 111") which further modified Article XIIB and Sections 8 and 8.5 of Article XVI of the State Constitution with respect to

appropriations limitations and school funding priority and allocation. The most significant provisions of Proposition 111 are summarized as follows:

a. Annual Adjustments to Spending Limit. The annual adjustments to the Article XIIB spending limit were liberalized to be more closely linked to the rate of economic growth. Instead of being tied to the Consumer Price Index, the “change on the cost of living” is now measured by the change in California per capita personal income. The definition of “change in population” specifies that a portion of the State’s spending limit is to be adjusted to reflect changes in school attendance.

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

c. Exclusions from Spending Limit. Two new exceptions have been added to the calculation of appropriations, which are subject to the Article XIIB spending limit. First, there are excluded all appropriations for “qualified capital outlay projects” as defined by the Legislature. Second, there are excluded any increase in gasoline taxes above their current nine cents per gallon level, sales and use taxes on such increment in gasoline taxes, and increases in receipts from vehicle weight fees above the levels in effect on January 1, 1990. These latter provisions were necessary to make effective the transportation funding package approved by the Legislature and the Governor, which expected to raise over \$15 billion in additional taxes from 1990 through 2000 to fund transportation programs.

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

e. School Funding Guarantee. There is a complex adjustment in the formula enacted in Proposition 98 which guarantees K-14 school districts a certain amount of State general fund revenues. Under prior law, K-14 school districts were guaranteed the greater of (1) 40.9% of State general fund revenues (the “first test”) or (2) the amount appropriated in the prior year adjusted for changes in the cost of living (measured as in Article XIIB by reference to per capita personal income) and enrollment (the “second test”). Under Proposition 111, schools will receive the greater of (1) the first test, (2) the second test, or (3) a third test, which will replace the second test in any year when growth in per capita State general fund revenues from the prior year is less than the annual growth in California per capital personal income. Under the third test, schools will receive the amount appropriated in the prior year adjusted for change in enrollment and per capita in any year, the difference between the third test and the second test will become a “credit” to schools which will be paid in future years when Sate general fund revenue growth exceeds personal income growth.

PROPOSITION 227

Proposition 227 was enacted in the California Primary election held on June 2, 1998, and amends the California Education Code to require that all children in California public schools be taught exclusively in English, and require that all children who do not speak English or whose native language is not English be placed in English language immersion classrooms during a temporary transition period, normally not to exceed one year. Once such students acquire a good working knowledge of English, they are to be transferred to English language mainstream classrooms. The statute mandates penalties associated with not following the law as written.

Proposition 227 will also allocate \$50 million per year for free or subsidized adult English language instruction programs to parents or other members of the community who pledge to provide English language tutoring to California school children with limited English proficiency. The senate Legislative Analyst's office has concluded that since the level of spending on K-12 programs is based on a formula in the State Constitution, the \$50 million allocated for these adult English classes would probably not cause the level of State spending for K-12 programs to increase. On the contrary, as a result of this provision of Proposition 227, spending on other school programs would likely decrease by a corresponding amount. At the school level, it is possible that funds associated with bilingual programs may be reduced. At the District level, such amounts may be redirected to other programs.

On the day after the June 2nd 1998 election, a coalition of civil rights groups filed a lawsuit in the United States District Court in San Francisco seeking to enjoin implementation of Proposition 227. The District is currently analyzing various methods of compliance with Proposition 227, although many issues remain to be clarified.

PROPOSITION 39

On November 7, 2000, California voters approved an amendment (commonly known as Proposition 39) to the California Constitution. This amendment (i) allows school facilities bond measures to be approved by 55 percent (rather than two-thirds) of the voters in the local elections and permits property taxes to exceed the current 1 percent limit in order to repay the bonds, and (ii) 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 Statutory provisions could be changed by a majority vote of both houses of the legislature and approval by the Governor, but only to further the purpose of the proposition. The local school jurisdictions affected by this proposition are k-12 school districts, community college districts, including the District, and county offices of education. As noted above, the California Constitution previously limited property taxes to 1 percent of the value of the property. Property taxes may only exceed this limit to pay for (i) any local government debts approved by the voters prior to July 1, 1978, or (ii) bonds to buy or improve real property that receives two-thirds voter approval after July 1, 1978.

The 55 percent vote requirement would apply only if the local bond measure presented to the voter includes (i) 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, (ii) 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 (iii) a requirement that the school board conduct annual, independent financial and performance audits until all bond funds have been spent to

insure that the bond funds have been used only for the projects listed in the measure. Legislation approved in 2000 places certain limitations on local school boards to be approved by 55 percent of the voters. These provisions require that the tax rate levied as a result of any single election be no more than \$60 (for a unified school district), \$30 (for an elementary school district or 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 local government revenue sources. Under Proposition 1A, the State could not reduce (i) local sales tax rates or alter the method of allocation, (ii) shift property taxes from local government to schools or community college districts, (iii) make changes in how property tax revenues are shared among local governments without two-thirds approval of both houses of the State legislature, and (iv) decrease Vehicle License Fees revenue without providing local governments with equal replacement funding. Beginning in 2008-09, the State may shift to schools and community college districts a limited amount of local government property tax revenue if (i) that the governor proclaims that the shift is needed due to a severe financial hardship of the State, (ii) the State Legislature approves the shift with a two-thirds vote of both houses, and (iii) certain other conditions are met. 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 amends the State Constitution to require the State to suspend certain State laws creating mandates in any year that the State does not fully reimburse local governments for their costs to comply with the mandates. This provision does not apply to mandates relating to community colleges or to those mandates relating to employee rights.

KINDERGARTEN-UNIVERSITY PUBLIC EDUCATION FACILITIES BOND ACT OF 2006

The Kindergarten-University Public Education Facilities Bond Act of 2006 ("Proposition 1D") appeared on the November 7, 2006 ballot as Proposition 1D and was approved by California voters. This measure authorizes the sale and issuance of \$10.4 billion in general obligation bonds for construction and renovation of K-12 school facilities (\$7.3 billion) and higher education facilities (\$3.1 billion).

K-12 School Facilities. Proposition 1D makes available \$3.3 billion for reconstruction or modernization of existing K-12 school facilities. K 12 school districts will be required to pay for 40% of these costs with local revenues, unless qualified for hardship funding. Proposition 1D also includes \$1.9 billion for acquisition of land and new construction of K-12 school facilities. K-12 school districts will be required to pay for 50% of such costs with local revenues, unless qualified for hardship funding. Proposition 1D directs a total of \$1.0 billion to K-12 school districts which are considered severely overcrowded, specifically to schools that have large number of pupils relative to the size of the school site. \$29 million will be available to fund joint-use projects.

Higher Education Facilities. Proposition 1D includes approximately \$3.1 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in the State's public higher education systems. The Governor and the Legislature will select the specific projects to be funded by the bond proceeds.

FUTURE INITIATIVES

Article XIII A, Article XIII B, and Propositions 1A, 1D, 37, 39, 62, 98, 111, 218, and 227, were each adopted as measures that qualified for the ballot pursuant to California's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues. The nature and impact of these measures cannot be anticipated by the District.

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.

A community college district determines its revenue allocation using a program-based model. The model was instituted in 1991, and replaces an older model based on enrollments. The model uses 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 Maintaining of Plants, and (5) Institutional support. Different standards are used in each category to determine fund requirements. The target allocation is obtained by calculating the exact cost of finding the specific standards in each category, on a district by district basis. The aggregate total of the financial needs of the five categories establishes the amount of funding a district will receive. State general fund moneys, local property taxes, and certain other local revenues are 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 apportionment will, generally speaking, amount to the difference between a district's base revenue and its local property tax allocation and student enrollment fees. Base revenue calculations are 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 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 will be 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.” Pursuant to SB 361, the Chancellor of the California Community Colleges (the “Chancellor”) will develop 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 and the Budget Act of 2006.

The District’s base revenue per unit of FTES for 2004-05, 2005-06 and 2006-07 were approximately \$3,963, \$4,684 and \$4,992, respectively. The District estimates that its base revenue per unit of FTES for 2007-08 was approximately \$5,089.

Local revenues are first used to satisfy district expenditures. 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. Property taxes and student enrollment fees are applied towards fulfilling the district’s financial need. Once these sources are exhausted, State funds are used.

State aid 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 District. The sum of the property taxes, student enrollment fees, and State aid generally comprise the District’s revenue limit.

“Basic Aid” community college districts are those districts whose local property tax and student enrollment fee collections exceed the revenue allocation determined by the program-based model. 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 district’s primary funding sources. Rather, property tax growth and the local economy become the determinant factors. The District is not a Basic Aid 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.

BUDGET PROCEDURES

On or before each September 15, the Board of Trustees of the 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 (the “Chancellor’s Office”), 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’s budget is then analyzed and discussed in committees and hearings begins 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 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. Since the enactment of such enabling legislation (AB 2910, Chapter 1486, Statutes of 1986), no community college district in the State has sought 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 districts audit reports, district input and other financial records. In assessing each district's financial condition, the Chancellor pays special attention to each district's general fund balance, spending pattern, and full-time visits from the Chancellor's Office where financial solutions to the district's problems will be addressed and implemented.

PROPOSITION 98

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 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 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 XIII B).

Calculating Minimum Funding Guarantee. There are currently three tests that determine the minimum level of K – 14 funding. 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 percent.

Under implementing legislation (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 of California) has separately calculated amounts under the Proposition 98 tests. The base year of 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 had been suspended in every year beginning with 1992-93. In those years, community colleges received less than was required from the statutory split.

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 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 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 AND RECENT STATE BUDGETS

California community college districts’ principal funding formulas and revenue sources are derived from the budget of the State of California (the “State”), and the State requires that from all State revenues there first shall be set apart the moneys to be applied for support of the public school system and public institutions of higher education. California school districts receive a significant portion of their funding from State appropriations. As a result, decreases in State revenues may significantly affect appropriations made by the legislature to school districts.

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

The Budget Process:

The State’s fiscal year begins on July 1 and ends on June 30. The annual budget is proposed by the

Governor by January 10 of each year for the next fiscal year (the “Governor’s Budget”). Under State law, the annual proposed Governor’s Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor’s Budget, the Legislature takes up the proposal.

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

Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations (except for K-14 education) must be approved by a two-thirds majority vote in each House of the Legislature and be signed by the Governor. Bills containing K-14 education appropriations only require a simple majority vote. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution. Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt.

Recent State Budgets:

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

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

(2) The California State Treasurer’s Office Internet home page at www.treasurer.ca.gov, under the heading Financial Information, posts the State’s audited financial statements. In addition, the Financial Information section includes the State’s Rule 15c2-12 filings for State bond issues. The Financial Information section also includes the Overview of the State Economy and Government, State Finances, State Indebtedness, Litigation from the State’s most current Official Statement, which discusses the State budget and its impact on school districts.

(3) The California Department of Finance’s Internet home page at www.dof.ca.gov, under the heading California Budget, includes the text of proposed and adopted State Budgets.

(4) The State Legislative Analyst’s Office prepares analyses of the proposed and adopted State budgets. The analyses are accessible on the Legislative Analyst’s Internet home page at www.lao.ca.gov under the heading Products.

Future Budgets:

The District cannot predict what actions will be taken in the future by the State Legislature and the Governor to address changing State revenues and expenditures. The State budget will be affected by national and state economic conditions and other factors over which the District will have no control. To the extent that the State budget process results in reduced revenues to the District, the District will be required to make adjustments to its budget. See “FUNDING OF COMMUNITY COLLEGE DISTRICTS IN CALIFORNIA.”

APPROVAL OF LEGAL PROCEEDINGS

Delivery of the Certificates is subject to receipt of an opinion of Greenberg Traurig, LLP, Santa Monica, California, acting as Special Counsel, as to the legality and enforceability of the Lease Agreement and the Trust Agreement. A copy of such legal opinion will be delivered with each Certificate. Certain matters will be passed upon for the District and the Corporation by its counsel and for the District by its Disclosure Counsel, The Weist Law Firm, A Professional Law Corporation, Scotts Valley, California.

Special Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Special Counsel as of the date thereof. Special Counsel assumes no duty to update or supplement its opinions to reflect any changes in law that may thereafter occur or become effective. Moreover, Special Counsel’s opinions are not a guarantee of a particular result, and are not binding on the IRS or the courts; rather, such opinions represent Special Counsel’s professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinions.

ABSENCE OF MATERIAL LITIGATION

At the time of delivery of and payment for the Certificates, the District and the Corporation will certify that there is no action, suit, litigation, inquiry or investigation before or by any court, governmental agency, public board or body served, or to the best knowledge of the District or the Corporation threatened, against the District or the Corporation or the titles of their officers to their respective offices or seeking to prohibit, restrain or enjoin the sale, execution or delivery of the Certificates or the payment of Lease Payments or challenging, directly or indirectly, the validity or enforceability of the proceedings to lease the Property back from the Corporation, the Trust Agreement, the Lease, the Assignment Agreement, the Agency Agreement or the Site Lease.

Except as otherwise described above, to the best of the knowledge of the District, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened against the District too restrain or enjoin the authorization, execution or delivery of the Certificates, or the pledge of the Lease Payments or the collection of payments to be made pursuant to the Trust Agreement, or the ownership and operations of the Project, or in any way contesting or affecting validity of the Certificates, the Trust Agreement, the Lease Agreement or the agreement for the sale of the Certificates or in any way contesting the transactions described in this Official Statement.

ENFORCEABILITY OF REMEDIES

The remedies available to the Trustee or the Owners of the Certificates upon an Event of Default under the Lease Agreement are in many respects dependent upon judicial actions which are often subject to discretion and delay, and such remedies may not be readily available or may be limited. For example, acceleration is not available in such instance.

TAX MATTERS

In the opinion of Greenberg Traurig, LLP, Santa Monica, California, Special Counsel, subject, however, to certain qualifications described herein, under existing law, and assuming compliance after the date of initial delivery of the Certificates of Participation with certain covenants set forth in the documents and instruments pertaining to the Certificates and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), as described herein, the portion of each Lease Payment designated as and comprising interest and received by the owners of the Certificates is excluded from gross income of the owners thereof pursuant to section 103 of the Code for federal income tax and purposes and is not an item of tax preference for purposes of calculating the federal alternative minimum tax imposed on individuals and corporations; although, for the purpose of computing the alternative minimum tax imposed on certain corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain alternative minimum tax and environmental tax liabilities on income and earnings. In the further opinion of Special Counsel, interest payable with respect to the Certificates is exempt from personal income taxes imposed by the State of California.

The opinions set forth in the preceding paragraph are subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986 (the "Code") that must be satisfied subsequent to the delivery of the Lease Agreement in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Lease Agreement.

Owners of the Certificates should also be aware that the ownership or disposition of, or the accrual or receipt of interest with respect to, the Certificates may have federal or state tax consequences other than as described above. Special Counsel expresses no opinion regarding any federal or state tax consequences arising with respect to the Lease Agreement and the Certificates other than as expressly described above. Furthermore, Special Counsel expresses no opinion with respect to the federal income tax consequences of any payments received with respect to the Certificates following termination of the Lease Agreement as the result of non-appropriation of funds or the occurrence of an event of default thereunder. The proposed form of the opinion of Special Counsel is attached as APPENDIX C.

FINANCIAL REPORT

The District's financial statements for the Fiscal Year ended June 30, 2007 were prepared by Nystrom & Company LLP, Certified Public Accountants, Redding, California, and excerpts from such report are contained in APPENDIX A hereto. The financial report should be read in its entirety. At the time of the execution and delivery of the Certificates, the District will certify that there has been no material

adverse change in the District's financial position since June 30, 2007. The information set forth herein does not purport to be a summary of the District's financial report.

RATINGS

The Certificates have been rated "Aaa" by Moody's Investors Service ("Moody's") and "AAA" by Standard & Poor's, a Division of the McGraw-Hill Companies ("S&P"), based on the delivery of the Certificate Insurance. S&P has assigned underlying rating of "A" to the Bonds, without regard to the Policy.

The ratings reflect only the views of the rating agencies, and any explanation of the significance of such ratings should be obtained from the rating agencies at the following addresses: Moody's Investors Service, 99 Church Street, New York, New York 10007 and Standard & Poor's, a Division of McGraw-Hill Companies, 55 Water Street, 45th Floor, New York, NY 10041. Generally, rating agencies base their ratings on such information and, materials and on investigations, studies and assumptions made by the rating agencies themselves. There is no assurance that the ratings mentioned above will continue for any given period if time or that such ratings will not be revised downward or withdrawn entirely by such organization, if in its judgment circumstances so warrant.

The above ratings are not recommendations to buy, sell or hold the Certificates, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Rating agencies have recently issued press releases or reports stating that they are examining the potential effects of downturns in the market for structured finance ("SF") instruments, including collateralized debt obligations ("CDOs") and residential mortgage backed securities ("RMBS"), on the claims-paying ability of bond insurance companies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Certificates.

The District, the Trustee and the Underwriter have undertaken no responsibility either to bring to the attention of the Owners of the Certificates any proposed change or withdrawal of the ratings or to oppose any such proposed revision or withdrawal. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Certificates.

CONTINUING DISCLOSURE

The District has covenanted in a Continuing Disclosure Certificate for the benefit of the Owners and beneficial owners of the Certificates to provide certain financial information and operating data relating to the District by not later than nine months following the end of the District's Fiscal Year (currently, the District's fiscal year ends on June 30) (the "Annual Report"), commencing with the report of Fiscal Year ending June 30, 2008, and to provide notices of the occurrence of certain enumerated events, if material. The Annual Report and notices of material events will be filed by the District with each Nationally Recognized Municipal Securities Information Repository. The specific nature of the information to be contained in the Annual Report and the notice of material events is set forth in "APPENDIX D – FORM OF CONTINUING DISCLOSURE CERTIFICATE," hereto. These covenants have been made in order to assist the Underwriter in complying with Rule 15c2-12(b) (5) promulgated under the Securities Exchange Act of 1934, as amended.

The District has not failed to make any filings in connection with prior obligations under the Rule.

UNDERWRITER

The Certificates are being purchased for reoffering by Nollenberger Capital Partners Inc. (the "Underwriter"). The Underwriter has agreed to purchase the Certificates at the aggregate purchase price of \$39,414,722.05, representing the \$40,280,000 par amount of the Certificates less Underwriter's discount of \$402,800.00, and less a net original issue discount of \$462,477.95. The Contract of Purchase relating to the Certificates provides that the Underwriter will purchase all of the Certificates, if any are purchased. Such obligation is subject to various conditions set forth in the Contract of Purchase.

MISCELLANEOUS

The foregoing and subsequent summaries or descriptions to provisions of the Site and Facility Lease, the Lease, the Trust Agreement, the Agency Agreement, Assignment Agreement and the Reimbursement Agreement are brief outlines of certain provisions thereof. Such outlines do not purport to be complete. For full and complete statements of such provisions, reference is made to said documents.

Insofar as any statement made in this Official Statement involves matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not a representation of fact. No representation is made that any of such statements made will be realized. Neither this Official Statement nor any statement which may have been made verbally or in writing is to be construed as a contract with the Owners of the Certificates. All information contained in this Official Statement pertaining to the District and the Corporation, has been furnished by the District. The execution and delivery of the Official Statement has been duly approved and authorized by the District.

KERN COMMUNITY COLLEGE DISTRICT

By: /s/ Sandra V. Serrano
Chancellor

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX A

AUDITED FINANCIAL STATEMENTS FOR FISCAL YEAR 2006-2007

THIS PAGE INTENTIONALLY LEFT BLANK

KERN COMMUNITY COLLEGE DISTRICT
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEARS ENDED JUNE 30, 2007 AND 2006

KERN COMMUNITY COLLEGE DISTRICT
TABLE OF CONTENTS
JUNE 30, 2007 AND 2006

	Page
INTRODUCTION	1
INDEPENDENT AUDITORS' REPORT	2
MANAGEMENT'S DISCUSSION AND ANALYSIS (REQUIRED SUPPLEMENTARY INFORMATION)	4
BASIC FINANCIAL STATEMENTS	
Statements of Net Assets	8
Statements of Revenues, Expenses, and Changes in Net Assets	9
Statements of Cash Flows	10
Notes to the Financial Statements	12
SUPPLEMENTARY INFORMATION	
Organization.....	43
Schedule of Expenditures of Federal Awards	44
Schedule of State Financial Awards	45
Schedule of Workload Measures for State General Apportionment	46
Reconciliation of Annual Financial and Budget Report (CCFS-311) with District Accounting Records.....	47
Combining Balance Sheet – District Funds Included in the Reporting Entity	48
Combining Statement of Revenues, Expenditures/Expenses and Changes in Fund Equity – District Funds Included in the Reporting Entity	50
Reconciliation of Fund Equity to Net Assets	54
Reconciliation of Change in Fund Equity to Increase in Net Assets.....	55
Notes to the Supplementary Information	56

KERN COMMUNITY COLLEGE DISTRICT
TABLE OF CONTENTS
JUNE 30, 2007 AND 2006

	Page
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	58
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133	60
INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE REQUIREMENTS	62
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	64
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	66
INDEPENDENT AUDITORS' COMMUNICATION TO THE AUDIT COMMITTEE	67

INTRODUCTION

AUDIT OBJECTIVES

The financial and compliance audits of the Kern Community College District had the following objectives:

To determine the fairness of presentation of the District's financial statements in accordance with accounting principles generally accepted in the United States of America.

To evaluate the adequacy of the systems and provisions affecting compliance with applicable federal and California laws and regulations, with which noncompliance would have a material effect on the District's financial statements and allowability of program expenditures for federal and California financial assistance programs.

To evaluate the adequacy of the internal control structure sufficient to meet the requirements of auditing standards generally accepted in the United States of America for the purpose of formulating an opinion on the basic financial statements taken as a whole and sufficient to ensure compliance with federal and state regulations.

To determine whether financial and financially related reports to state and federal agencies are presented fairly.

To recommend appropriate actions to correct any noted areas where internal control compliance with applicable federal and state regulations could be improved.

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2007 and 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the California State Department of Finance. 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of June 30, 2007 and 2006, and the respective changes in financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007, 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 should be considered when assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) on pages 4 through 7 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, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The remaining supplementary information as listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the Schedule of State Financial Awards, which is presented for purposes of additional analysis as required by the California Community Colleges Chancellor's Office, are not a required part of the basic financial statements of the District. Such information has 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.

Nystrom & Company LLP

December 21, 2007

**KERN COMMUNITY COLLEGE DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2007 AND 2006**

ACCOUNTING STANDARDS

The Governmental Accounting Standard's Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* in June 1999, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which applies the new reporting standards of GASB Statement No. 34 to public colleges and universities. The GASB then amended those statements in June 2001 with the issuance of GASB Statements No. 37 and No. 38. Kern Community College District (District) adopted and applied these new standards beginning in the 2002-03 fiscal year. In May 2002, the GASB released Statement No. 39, *Determining Whether Certain Organizations Are Component Units* which amends GASB Statement 14, paragraphs 41 and 42, to provide guidance for determining and reporting whether certain organizations are component units. The District has adopted and applied the above standards beginning with the 2003-04 fiscal year.

The California Community College Chancellor's Office recommends that all State community college districts follow the new standards using the Business Type Activity (BTA) model. Kern Community College District has adopted the BTA reporting model for these financial statements to comply with the recommendation of the Chancellor's Office and to report in a manner consistent and comparable with other community college districts.

The following discussion and analysis provides an overview of the District's financial activities with emphasis on current year data. As required by the newly adopted accounting principles, this report consists of three basic financial statements that provide information on the District as a whole: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

Some of the changes in the financial statements that have resulted from the implementation of these new standards using the BTA model are:

- Revenues and expenses are now categorized as either operating or non-operating; this operating information was not previously presented.
- Pledges from donors (excluding permanent endowments) are recorded as receivables and non-operating revenues at the date of the pledge. Previously, pledges were not recorded as revenue until the related gift was received.
- Capital assets are included in the statement presentations.

KERN COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007 AND 2006

OVERVIEW

The Kern Community College District financial strength continues to grow. This was driven by several events occurring in the 2006-07 fiscal year. Senate Bill 361 which reformed the funding formula for the States' Community College Districts was implemented. This resulted in a significant increase in apportionment revenue to the District. In addition, the District received significant amounts of one-time fund allocations for vocational, basic skills, instructional equipment, scheduled maintenance and general purposes. Concurrently the Board of Trustees focused the District on controlling expenditures through the establishment of reserve targets of 10% (excluding College reserves). This has had the effect of significantly increasing overall reserves and positions the District well for dealing with the significant uncertainties that can occur with State funding. Finally, the District issued its next series (\$50 million) of local capital outlay bonds (Measure G) to meet cash flow requirements for its ongoing construction program.

The District's total assets grew from \$334 million to \$396 million, an increase of \$62.4 million. The growth consists of two components. These components were current assets increasing from \$116 million to \$168 million and noncurrent assets increasing from \$218 million to \$229 million. The growth was due to the issuance of \$50 million in bonds and revenues exceeding expenditures by \$10.5 million. There was little change in the current liabilities, they increased from \$19 million to \$21 million which was caused by an increase in the current portion of compensated absences of \$1.4 million and an increase in the current portion of long term debt of \$ 500K. The increase in noncurrent liabilities from \$186 million to \$236 was caused primarily by the issuance of the \$50 million in Measure G bonds.

There were relatively minor changes in the three components of net assets. Investment in capital assets increase from \$52 million to \$55 million fueled by earnings on the construction funds, the increase in restricted expendable net assets from \$25 to \$28 million was made up of two increases; 1) \$1.7 million of revenues in excess of earning in restricted programs and; 2) a \$1.1 million increase in debt service funds. The final component of net assets is the unrestricted net assets which grew from \$52.7 to \$56.2 million. This growth was the result of revenues in excess of expenditure in the unrestricted operations of the District.

The major changes in revenue were an increase of \$10.2 million in apportionment (including property taxes) from \$78.1 to \$88.3 million. State grants increased \$1.7 million and investment revenues increased \$3.8 million. The only major decrease was in State apportionments for capital projects (\$2.2 million). The end result was an increase in total revenues from \$158.2 to \$171.9 million which was an overall revenue increase of \$13.7 million.

Expenditures increased by \$12 million from \$149.6 to \$161.6 million. The largest increase was salaries (\$4.1 million) driven by increases for all classes of employees and including an increase to our adjunct faculty hourly rates. Employee benefits increased (\$871K) due primarily to increased insurance premium costs. Supplies, Materials, Other Operating Expenses and Services increased \$3.7 million due primarily to expenditures related to one time funding revenues and inflation. Depreciation and amortization expense increased \$1.1 million as a result of increased depreciable capital assets from the District's ongoing construction and equipment acquisitions.

KERN COMMUNITY COLLEGE DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007 AND 2006

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 using the accrual basis of accounting, which is comparable to that used by most private-sector institutions. Net assets – the difference between assets and liabilities – are one way to measure the financial health of the District. The net asset data allows readers to determine the resources available to continue the operations of the District.

The net assets of the District consist of three major categories:

- Invested in capital assets, net of related debt – The District's equity in property, plant, and equipment.
- Restricted net assets (distinguishing between major categories of restriction) – The constraints placed on the use of the assets are externally imposed by creditors such as through debt covenants, grantors, contributors, or laws or regulations of other governments or imposed through constitutional provisions or enabling legislation.
- Unrestricted net assets – The District can use them for any lawful purpose. Although unrestricted, the District's governing board may place internal restrictions on these net assets, but it retains the power to change, remove, or modify those restrictions.

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The Statement of Revenues, Expenses and Changes in Net Assets presents the operating results of the District. The purpose of the statement is to present the revenues received by the District, both operating and non-operating, and the expenses paid by the District, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by the District. State general apportionment funds, while budgeted for operations, are considered non-operating revenues according to generally accepted accounting principles. Changes in total net assets on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. Operating revenues are received for providing goods and services to the various customers and constituencies of the District. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the District.

STATEMENT OF CASH FLOWS

The Statement of Cash Flows provides additional information about the District's financial results by reporting its major sources and uses of cash. This information assists readers in assessing the District's ability to generate revenue, meet its obligations as they come due, and evaluate its need for external financing. The statement is divided into several parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from non-capital financing activities and

KERN COMMUNITY COLLEGE DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2007 AND 2006**

shows the sources and uses of those funds. The third section deals with 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 section deals with cash flows from investing activities. This section reflects the cash received and spent for short-term investments and any interest paid or received on those investments.

KERN COMMUNITY COLLEGE DISTRICT
STATEMENTS OF NET ASSETS

	June 30,	
	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,543,328	\$ 9,879,672
Restricted cash	136,442,083	90,344,391
Accounts receivable, net	15,713,273	13,670,320
Prepaid expenses	503,169	559,411
Inventories	1,400,511	1,440,789
Total current assets	167,602,364	115,894,583
Noncurrent assets:		
Restricted investments	45,041,126	40,441,307
Depreciable capital assets, net	126,952,944	127,267,797
Nondepreciable capital assets	51,932,133	46,295,041
Deferred costs, net	4,762,228	4,193,820
Total noncurrent assets	228,688,431	218,197,965
Total assets	\$ 396,290,795	\$ 334,092,548
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 10,471,408	\$ 10,915,130
Deferred revenue	3,483,903	2,689,189
Compensated absences, current portion	1,637,790	241,283
Long-term debt, current portion	4,238,384	3,701,792
Amounts held for others	1,122,394	1,138,960
Total current liabilities	20,953,879	18,686,354
Noncurrent liabilities:		
Compensated absences, noncurrent portion	749,970	2,021,184
Long-term debt, noncurrent portion	235,122,336	184,179,990
Total noncurrent liabilities	235,872,306	186,201,174
Total liabilities	256,826,185	204,887,528
NET ASSETS		
Investments in capital assets, net of related debt	55,447,680	51,689,011
Restricted - expendable	27,849,093	24,806,903
Unrestricted	56,167,837	52,709,106
Total net assets	139,464,610	129,205,020
Total liabilities and net assets	\$ 396,290,795	\$ 334,092,548

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

KERN COMMUNITY COLLEGE DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS

	Years Ended June 30,	
	2007	2006
OPERATING REVENUES		
Tuition and fees	\$ 13,327,820	\$ 13,580,091
Less: scholarship discount and allowance	6,160,541	7,248,443
Net tuition and fees	7,167,279	6,331,648
Grants and contracts, non-capital:		
Federal	22,574,784	22,939,405
State	19,152,136	17,429,044
Local	1,679,494	1,819,530
Auxiliary enterprise sales and charges	8,229,636	7,729,547
Other operating revenues	1,777,790	1,691,159
Total operating revenues	60,581,119	57,940,333
OPERATING EXPENSES		
Salaries	73,316,544	69,182,428
Employee benefits	24,730,605	23,859,161
Payments to students	21,038,446	20,676,711
Supplies, materials, other operating expenses and services	21,849,758	18,128,949
Utilities	3,694,867	3,127,226
Depreciation and amortization expense	5,661,500	4,586,046
Total operating expenses	150,291,720	139,560,521
OPERATING LOSS	(89,710,601)	(81,620,188)
NON-OPERATING REVENUES (EXPENSES)		
State apportionments, non-capital	50,004,668	43,243,104
Local property taxes, non-capital	38,323,413	34,830,249
State taxes and other revenues	3,514,057	3,585,297
Investment income, non-capital	8,591,861	4,743,289
Interest expense, capital asset-related debt	(10,456,787)	(8,995,522)
Other non-operating expense	(901,144)	(1,048,745)
Total non-operating revenues (expenses)	89,076,068	76,357,672
INCOME (LOSS) BEFORE OTHER REVENUES AND EXPENSES	(634,533)	(5,262,516)
State apportionments, capital	4,618,923	6,842,532
Local property taxes and revenues, capital	6,275,200	7,015,572
INCREASE IN NET ASSETS	10,259,590	8,595,588
NET ASSETS, BEGINNING OF YEAR	129,205,020	120,609,432
NET ASSETS, END OF YEAR	\$ 139,464,610	\$ 129,205,020

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

KERN COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Tuition and fees	\$ 6,254,426	\$ 6,481,608
Federal grants and contracts	21,382,928	24,831,800
State grants and contracts	20,898,619	18,762,619
Local grants and contracts	1,918,870	1,399,988
Payments to/on behalf of employees	(72,382,964)	(70,299,640)
Payments for benefits	(24,730,605)	(23,859,161)
Payments for scholarships and grants	(21,038,446)	(20,676,711)
Payments to suppliers	(24,152,882)	(15,707,402)
Payments for utilities	(3,694,867)	(3,127,226)
Auxiliary enterprise sales and charges	8,551,111	7,885,645
Other receipts (payments)	702,460	1,168,132
Net cash used by operating activities	(86,291,350)	(73,140,348)
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
State apportionments, non-capital	50,269,810	41,015,250
Local property taxes	38,323,413	34,830,249
State taxes and other revenues	3,514,057	3,585,297
Other receipts (payments)	(901,144)	(1,048,745)
Net cash provided (used) by non-capital financing activities	91,206,136	78,382,051
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
State apportionments, capital	4,618,923	6,842,532
Purchases of capital assets	(10,983,739)	(34,269,699)
Interest paid on capital debt	(7,889,031)	(8,156,460)
Principal paid on capital debt	(3,685,000)	(54,275,000)
Proceeds from capital debt	52,518,167	60,143,359
Local property taxes, capital	6,275,200	7,015,572
Net cash provided (used) by capital and related financing activities	40,854,520	(22,699,696)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	8,597,931	11,253,482
Purchase of investments	(13,197,750)	(25,211,775)
Interest on investments	8,591,861	4,743,289
Net cash provided (used) by investing activities	3,992,042	(9,215,004)
NET CHANGE IN CASH AND CASH EQUIVALENTS	49,761,348	(26,672,997)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	100,224,063	126,897,060
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 149,985,411	\$ 100,224,063

(Continued on following page)

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

KERN COMMUNITY COLLEGE DISTRICT
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2007	2006
COMPONENTS OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	\$ 13,543,328	\$ 9,879,672
Restricted cash (current)	136,442,083	90,344,391
Total cash and cash equivalents	\$ 149,985,411	\$ 100,224,063
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	\$ (89,710,601)	\$ (81,620,188)
Adjustments to reconcile operating loss to net cash used by operating activities:		
Depreciation and amortization expense	5,661,500	4,586,046
Write-off of previous construction in progress	-	174,488
(Increase) decrease in:		
Accounts receivable, net	(2,308,095)	6,155,517
Prepaid expenses	56,242	277,266
Inventories	40,278	(312,821)
Increase (decrease) in:		
Accounts payable	(934,115)	(2,529,727)
Deferred revenue	794,714	377,107
Amounts held for others	(16,566)	(6,753)
Compensated absences	125,293	(241,283)
Net cash used by operating activities	\$ (86,291,350)	\$ (73,140,348)
NON-CASH CAPITAL FINANCING ACTIVITIES:		
Debt proceeds withheld from District for issuance costs.	\$ 854,466	\$ 805,251

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

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

Kern Community College District (District) is a community college governed by an elected seven-member Board of Trustees. The District provides educational services in the counties of Kern, Tulare, San Bernardino, Inyo and Mono in the State of California. The District consists of three community colleges located in Bakersfield, Porterville, and Ridgecrest, California and satellite campuses in outlying areas.

The District identified the Kern Community College District Public Facilities Corporation (Corporation) as its only component unit.

In order to make this determination, the District considered the following potential component units: the Corporation, Bakersfield College Foundation, Cerro Coso Community College Foundation, Delano College Center Foundation, and Porterville College Foundation. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14 as amended by GASB Statement No. 39. The three criteria for requiring a legally separate, tax-exempt organization to be discretely presented as a component unit are the "direct benefit" criterion, the "entitlement/ability to access" criterion, and the "significance" criterion.

The Corporation was established as a legally separate, not-for-profit corporation to provide financial assistance to the District for acquisition and construction of major capital facilities, which, upon completion, will be leased to the District under a lease-purchase agreement. At the end of the lease term, title to all Corporation property will pass to the District for no additional consideration. Therefore, the District has classified the Corporation as a component unit that will be presented in the District's annual financial statements using the blending method.

All of the Foundations are legally separate, not-for-profit corporations established to support the District and its students. The Foundations contribute to various scholarship funds for the benefit of District students as well as making direct contributions to the District. However, due to the size of the District, none of these Foundations, individually, meet the significance criteria and therefore, the District has determined none of these Foundations meet the requirement to be included in the reporting entity as a discretely presented component unit.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

BASIS OF PRESENTATION AND ACCOUNTING

The financial statement presentation required by GASB Statements No. 34, 35, 37, 38, and 39 provides a comprehensive, entity-wide perspective of the District's overall financial position, results of operations and cash flows, and replaces the fund-group perspective previously required. The District now follows the "business-type activities" reporting requirements of GASB Statement No. 34 that provides a comprehensive one-line look at the District's financial activities.

The basic financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District has elected to follow GASB pronouncements and not Financial Accounting Standards Board (FASB) pronouncements after 1989, as presented by GASB Statement No. 20.

For financial reporting purposes, the District is considered a special-purpose government engaged only in business-type activities (BTA). Accordingly, the District's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenditures are recorded when a liability is incurred, regardless of the timing of the related cash flows. All significant intra-agency transactions have been eliminated.

Exceptions to the accrual basis of accounting are as follows:

In accordance with industry standards provided by the California Community Colleges Chancellor's Office, summer session tuition and fees received before year-end are recorded as deferred revenue as of June 30 with the revenue being reported in the fiscal year in which the program is predominately conducted.

The financial accounts of the District are recorded and maintained in accordance with the *California Community Colleges Budget and Accounting Manual*.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

CASH AND CASH EQUIVALENTS

For purposes of the Statement of Cash Flows, the District considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Funds invested in the County Treasurer's investment pool are considered cash equivalents.

INVESTMENTS

GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, provides that amounts held in external investment pools be reported at fair value. However, cash in the county treasury and investments in the Local Agency Investment Fund (LAIF) are recorded at the value of the pool shares held, which approximates the fair value of the underlying cash and investments of the pool.

All other investments are reported at fair value based on quoted market prices with realized and unrealized gains or losses reported in the statement of operations.

RESTRICTED CASH AND INVESTMENTS

Restricted cash and investments includes cash restricted for the repayment of debt, for use in the acquisition or construction of capital assets, for restricted programs, for any other restricted purpose, or in any funds restricted in purpose per the *California Community Colleges Budget and Accounting Manual*.

ACCOUNTS RECEIVABLE

Accounts receivable 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. Accounts receivable also include 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 grants and contracts. Losses on uncollectible accounts receivable are recognized when such losses become known or indicated.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

INVENTORY

Inventory consists primarily of bookstore merchandise including, but not limited to, books, instructional materials and sundry items held for resale to students and staff of the College. Inventory is valued at cost utilizing the retail method on a first in, first out basis. Management has determined the likelihood of cost exceeding market to be low.

PREPAIDS

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

CAPITAL ASSETS

Capital assets are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Where historical cost is not available, estimated historical cost is based on replacement cost reduced for inflation. Capitalized equipment includes all items with a unit cost of \$5,000 or more and estimated useful life of greater than one year. Renovations to buildings, infrastructure, and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings, 15 years for portable buildings, 10 years for site improvements, and 3 - 8 years for equipment and vehicles.

The District has entered into two significant joint facility use agreements with other public agencies. These agreements call for the prepayment of lease costs by the District in exchange for designated future use of specific facilities being constructed by various other public agencies. These prepayments are designated to be utilized to complete construction of the new facilities to be jointly used by the District and other public agencies. Based on management's interpretation of current generally accepted accounting principles, these payments meet the definition of a capital asset due to the long-term nature of the agreements even though the District does not have an actual ownership interest in the capital assets underlying the agreements.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

CAPITAL ASSETS (Continued)

<u>Contracting Public Agencies</u>	<u>Term</u>	<u>Facilities</u>	<u>Prepaid Amount</u>
Joint Union High School District	50 Years	Gymnasium and Lecture Center	\$ 4,000,000
Mono County Library Authority, Mono County Board of Education, and Mammoth Unified School District	90 Years	Library	\$ 2,309,640

DEFERRED REVENUE

Deferred revenue includes amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year that relate to the subsequent accounting period. Deferred revenue also includes amounts received from grant and contract sponsors that have not yet been earned.

AMOUNTS HELD FOR OTHERS

Amounts held for others represents funds held by the District for the associated students trust fund, student representation fee trust fund and student body fee trust fund.

COMPENSATED ABSENCES

Accumulated and vested unpaid employee vacation benefits and compensatory time are recognized as liabilities of the District as the benefits are earned.

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

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

LONG-TERM LIABILITIES

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which does not differ materially from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. Amortization of issuance costs was \$267,424 and \$910,114 for the years ended June 30, 2007 and 2006, respectively.

NET ASSETS

Net assets represent the difference between assets and liabilities. The District's net assets are classified as follows:

- *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 invested in capital assets, net of related debt.
- *Restricted net assets-expendable* – Restricted expendable net assets represent resources which are legally or contractually obligated to be spent in accordance with restrictions imposed by external third parties.
- *Unrestricted net assets* – Unrestricted net assets represent resources derived from student tuition and fees, state apportionments, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the District, and may be used at the discretion of the governing board to meet current expenses for any purpose.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the District's policy is to first apply the expense toward restricted resources, and then towards unrestricted resources.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

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, 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, (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 nonexchange transactions, such as gifts and contributions, and other revenue sources described in GASB Statement No. 34, such as state appropriations and investment income.

SCHOLARSHIP DISCOUNTS AND ALLOWANCES

Student tuition and fee revenue are 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 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 nongovernmental programs, are recorded as operating revenues (Grants) and operating expenses (Payments to Students) in the District's financial statements.

STATE APPORTIONMENTS

Certain current year apportionments from the State are based on various financial and statistical information of the previous year. Any prior year corrections due to the recalculation in February will be recorded in the year computed by the State.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Continued)

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the basic 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 March 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent if paid after December 10 and April 10. Unsecured property taxes are payable in one installment on or before August 31. The County of Kern bills and collects the taxes for the District.

BUDGET AND BUDGETARY ACCOUNTING

By state law, the District's governing board must approve a tentative budget no later than July 1, and adopt a final budget no later than September 15 of each year. A hearing must be conducted for public comments prior to adoption. The District's governing board satisfied these requirements.

The budget is revised during the year to incorporate categorical funds that are awarded during the year and miscellaneous changes to the spending plans. The District's governing board approves revisions to the budget.

RECLASSIFICATIONS

Certain reclassifications have been made to fiscal year 2006 amounts in order to conform to the fiscal year 2007 presentation. Specifically, \$1,806,982 of accretion of accumulated accretion on capital appreciation bonds has been moved from accounts payable in the prior year to long-term debt in the current year.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 CASH AND INVESTMENTS

The cash and cash equivalents as of June 30, 2007 and 2006, are displayed on the statement of net assets as follows:

	June 30,	
	2007	2006
Cash and cash equivalents	\$ 13,543,328	\$ 9,879,672
Restricted cash and cash equivalents	<u>136,442,083</u>	<u>90,344,391</u>
Total cash and cash equivalents	<u>\$ 149,985,411</u>	<u>\$ 100,224,063</u>

Deposits – At June 30, 2007 and 2006, the carrying amount of the District's deposits is summarized as follows:

	June 30,	
	2007	2006
Cash in County Treasury	\$ 113,844,945	\$ 64,998,678
Cash on hand and in banks	9,573,246	4,491,134
Cash held by Trustees	<u>26,567,220</u>	<u>30,734,251</u>
Total deposits	<u>\$ 149,985,411</u>	<u>\$ 100,224,063</u>

As provided for by *Education Code*, Section 41001, a significant portion of the District's cash balances of most funds is deposited with the Kern County Treasurer for the purpose of increasing interest earned through County investment activities. The County Treasury's Pooled Money Investment account's weighted average maturities was 1.20 and 1.26 years at June 30, 2007 and 2006, respectively.

As of the date of these financial statements, the County of Kern's 2007 audited financial statements were not yet available. Copies of the County's audited financial statements can be obtained from the Kern County Auditor-Controller's Office, 1115 Truxtun Avenue, Bakersfield, California 93301-4639.

The pooled treasury has regulatory oversight from the Kern County Treasury Oversight Committee in accordance with *California Government Code* requirements.

The *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 CASH AND INVESTMENTS
(Continued)

All cash held by financial institutions is collateralized by securities that are held by the broker or dealer, or by its trust department or agent, but not in the District's name. In addition, \$180,000 and \$200,000 of the bank balances at June 30, 2007 and 2006, are insured.

Investments – The California Government Code and the investment policy of the District authorize it to invest in the following:

- Securities of the U.S. Government and its Sponsored Agencies
- Small Business Administration Loans
- Certificates of Deposit and or FDIC-Insured Passbook Savings
- Bankers Acceptances
- Commercial Paper
- Local Agency Investment Fund (LAIF)
- Repurchase Agreements

As of June 30, 2007 and 2006, the District's investments and deposits are as follows:

	June 30,	
	2007	2006
Investments in LAIF	\$ 805,274	\$ 766,797
Bank clearing account	3,937,091	3,382,931
Certificates of Deposit	7,505,107	6,123,612
Money Market	339,069	2,650,842
Corporate Bonds and Notes	8,694,115	7,573,314
Government Bonds and Notes	<u>23,760,470</u>	<u>19,943,811</u>
Total investments	\$ <u>45,041,126</u>	\$ <u>40,441,307</u>

The District participates in the Local Agency Investment Fund (LAIF), a voluntary program created by statute (California Government Code Section 16429). The Local Investment Advisory Board provides oversight for LAIF. Market valuation is conducted monthly and fund policies, goals and objectives are reviewed annually. The District has the right to withdraw its deposited moneys from LAIF upon demand. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds and floating rate securities issued by federal agencies, government-sponsored enterprises and corporations. LAIF's exposure and the District's related exposure to credit, market and legal risk is not available.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 CASH AND INVESTMENTS
(Continued)

Risk Information – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. The District manages its exposure to interest rate risk using multiple strategies. Those strategies are as follows:

1. The implementation of a "ladder" in which bond maturities are staggered evenly over a five year period. This partially neutralizes interest rate risk by giving the District the flexibility of reinvesting shorter-term securities in higher interest rates (assuming interest rates are moving up) and locking in a portion of the portfolio at higher rates on a longer term basis if interest rates move downward. The overall goal is to provide a more competitive "average" yield on the portfolio as opposed to making directional yield curve projections at various points on the curve.
2. The District also diversifies through investing in credit quality securities. Over 70% of the portfolio is currently weighted in AAA-rated securities. These securities tend to perform better in volatile interest rate environments. The District's bias is to keep a solid majority of the portfolio in AAA-rated securities at all times for capital preservation purposes.
3. The District invests in "step-up" coupon bonds and some "floating-rate" debt in the portfolio. This also assists in cushioning the portfolio from credit risk during periods of higher interest rates.

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table of the District's investments by maturity:

June 30, 2007		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	\$ 805,274	\$ 805,274	\$ -	\$ -
Bank clearing account	3,937,091	3,937,091	-	-
Certificates of Deposit	7,505,107	965,789	6,539,318	-
Money Market	339,069	339,069	-	-
Corporate Bonds and Notes	8,694,115	298,290	8,395,825	-
Government Bonds and Notes	<u>23,760,470</u>	<u>2,694,633</u>	<u>21,065,837</u>	<u>-</u>
Total investments	\$ <u>45,041,126</u>	\$ <u>9,040,146</u>	\$ <u>36,000,980</u>	\$ <u>-</u>

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 CASH AND INVESTMENTS
(Continued)

June 30, 2006		Investment Maturities (In Years)		
Investment Type	Fair Value	Less Than 1	1 To 5	More Than 5
Investment in LAIF	\$ 766,797	\$ 766,797	\$ -	\$ -
Bank clearing account	3,382,931	3,382,931	-	-
Certificates of Deposit	6,123,612	803,747	5,319,865	-
Money Market	2,650,842	2,650,842	-	-
Corporate Bonds and Notes	7,573,314	583,693	6,989,621	-
Government Bonds and Notes	19,943,811	2,491,731	17,452,080	-
Total investments	\$ 40,441,307	\$ 10,679,741	\$ 29,761,566	\$ -

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the holder of the investment. This is measured by ratings assigned by nationally-recognized organizations. The following represents the actual ratings of the investment types:

June 30, 2007		Investment Ratings				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Investment in LAIF	\$ 805,274	\$ -	\$ -	\$ -	\$ -	\$ 805,274
Bank clearing account	3,937,091	3,937,091	-	-	-	-
Certificates of Deposit	7,505,107	7,505,107	-	-	-	-
Money Market	339,069	339,069	-	-	-	-
Corporate Bonds and Notes	8,694,115	-	3,659,377	5,034,738	-	-
Government Bonds and Notes	23,760,470	23,760,470	-	-	-	-
Total investments	\$ 45,041,126	\$ 35,541,737	\$ 3,659,377	\$ 5,034,738	\$ -	\$ 805,274

June 30, 2006		Investment Ratings				
Investment Type	Fair Value	AAA	AA	A	BBB	Unrated
Investment in LAIF	\$ 766,797	\$ -	\$ -	\$ -	\$ -	\$ 766,797
Bank clearing account	3,382,931	3,382,931	-	-	-	-
Certificates of Deposit	6,123,612	6,123,612	-	-	-	-
Money Market	2,650,842	2,650,842	-	-	-	-
Corporate Bonds and Notes	7,573,314	-	2,440,509	5,132,805	-	-
Government Bonds and Notes	19,943,811	19,943,811	-	-	-	-
Total investments	\$ 40,441,307	\$ 32,101,196	\$ 2,440,509	\$ 5,132,805	\$ -	\$ 766,797

Concentration risk is defined as positions of 5% or more in the securities of a single issuer. The District's investment policy contains no limitations on the amount that can be invested in any single issuer. However, there are no investments with any single issuer that exceed 5% of the total portfolio.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 2 CASH AND INVESTMENTS
(Continued)

Custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., financial institution, broker-dealer) to a transaction, a government will not be able to recover the value of its cash and investments or collateral securities that are in the possession of another party.

For deposits, the *California Government Code* requires California banks and savings and loan associations to secure the District's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110 percent of an entity's deposits. California law also allows financial institutions to secure an entity's deposits by pledging first trust deed mortgage notes having a value of 150 percent of an entity's total deposits.

For investments, the District's policy requires that a third-party bank trust department hold all securities owned by the District in the District's name.

NOTE 3 ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 and 2006, consist of the following:

	June 30,	
	2007	2006
Tuition and fees	\$ 2,062,821	\$ 1,394,060
Less allowance for doubtful accounts	<u>755,980</u>	<u>514,240</u>
Tuition and fees, net	1,306,841	879,820
Federal grants and contracts	2,496,805	1,454,506
State grants and contracts	1,409,700	1,727,799
Local grants and contracts	372,612	610,269
State apportionment, taxes and other revenues	5,953,552	6,218,694
Unbilled construction receivables	1,287,623	630,381
Auxiliaries	223,878	545,353
Other	<u>2,662,262</u>	<u>1,603,498</u>
Total	\$ <u>15,713,273</u>	\$ <u>13,670,320</u>

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	\$ 2,739,429	\$ -	\$ -	\$ 12,559,000	\$ 15,298,429
Joint use facilities agreements 6,309,640		5,139,640	-	-	1,170,000
Construction in progress	<u>38,415,972</u>	<u>9,811,555</u>	<u>-</u>	<u>(17,903,463)</u>	<u>30,324,064</u>
Total nondepreciable assets	\$ <u>46,295,041</u>	\$ <u>9,811,555</u>	\$ <u>-</u>	\$ <u>(4,174,463)</u>	\$ <u>51,932,133</u>
Depreciable capital assets:					
Site improvements	\$ 6,384,266	\$ 46,874	\$ -	\$ (745,198)	\$ 5,685,942
Buildings	143,583,205	133,012	-	2,460,236	146,176,453
Equipment	12,848,258	741,850	-	58,188	13,648,296
Computer equipment	8,060,907	204,918	-	2,401,237	10,667,062
Vehicles	<u>1,802,685</u>	<u>45,530</u>	<u>-</u>	<u>-</u>	<u>1,848,215</u>
	<u>172,679,321</u>	<u>1,172,184</u>	<u>-</u>	<u>4,174,463</u>	<u>178,025,968</u>
Less accumulated depreciation:					
Site improvements	3,526,328	291,851	-	(89,941)	3,728,238
Buildings	28,491,476	2,759,714	-	89,941	31,341,131
Equipment	6,039,211	1,133,114	-	-	7,172,325
Computer equipment	6,113,458	1,336,675	-	-	7,450,133
Vehicles	<u>1,241,051</u>	<u>140,146</u>	<u>-</u>	<u>-</u>	<u>1,381,197</u>
	<u>45,411,524</u>	<u>5,661,500</u>	<u>-</u>	<u>-</u>	<u>51,073,024</u>
Total depreciable assets, net	\$ <u>127,267,797</u>	\$ <u>(4,489,316)</u>	\$ <u>-</u>	\$ <u>4,174,463</u>	\$ <u>126,952,944</u>

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 4 CAPITAL ASSETS
(Continued)

Capital asset activity for the year ended June 30, 2006, is summarized as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Nondepreciable assets:					
Land	\$ 2,739,429	\$ -	\$ -	\$ -	\$ 2,739,429
Joint use facilities agreements		-	5,139,640	-	-
5,139,640					
Construction in progress	<u>49,269,617</u>	<u>28,003,346</u>	<u>(174,488)</u>	<u>(38,682,503)</u>	<u>38,415,972</u>
Total nondepreciable assets	\$ <u>52,009,046</u>	\$ <u>33,142,986</u>	\$ <u>(174,488)</u>	\$ <u>(38,682,503)</u>	\$ <u>46,295,041</u>
Depreciable capital assets:					
Site improvements	\$ 6,161,067	\$ 33,430	\$ -	\$ 189,769	\$ 6,384,266
Buildings	111,207,588	119,464	-	32,256,153	143,583,205
Equipment	7,667,898	639,104	-	4,541,256	12,848,258
Computer equipment	6,082,523	283,059	-	1,695,325	8,060,907
Vehicles	<u>1,751,029</u>	<u>51,656</u>	<u>-</u>	<u>-</u>	<u>1,802,685</u>
	<u>132,870,105</u>	<u>1,126,713</u>	<u>-</u>	<u>38,682,503</u>	<u>172,679,321</u>
Less accumulated depreciation:					
Site improvements	3,232,634	293,694	-	-	3,526,328
Buildings	25,969,263	2,522,213	-	-	28,491,476
Equipment	5,246,684	792,527	-	-	6,039,211
Computer equipment	5,275,312	838,146	-	-	6,113,458
Vehicles	<u>1,101,585</u>	<u>139,466</u>	<u>-</u>	<u>-</u>	<u>1,241,051</u>
	<u>40,825,478</u>	<u>4,586,046</u>	<u>-</u>	<u>-</u>	<u>45,411,524</u>
Total depreciable assets, net	\$ <u>92,044,627</u>	\$ <u>(3,459,333)</u>	\$ <u>-</u>	\$ <u>38,682,503</u>	\$ <u>127,267,797</u>

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 5 ACCOUNTS PAYABLE

Accounts payable at June 30, 2007 and 2006, consist of the following:

	June 30,	
	2007	2006
Accrued payroll and related liabilities	\$ 4,226,277	\$ 3,417,990
Construction payables	1,408,182	1,766,615
Interest payable	1,978,520	1,488,127
Other	<u>2,858,429</u>	<u>4,242,398</u>
Total	\$ <u>10,471,408</u>	\$ <u>10,915,130</u>

NOTE 6 SHORT-TERM DEBT

The District participated in the California Community College Financing Authority 2006 and 2005 Tax and Revenue Anticipation Bond program, depositing the proceeds (to the extent of participation) in its general fund. Short-term debt is necessary for the District to maintain proper working cash levels.

Short-term debt activity for the year ended June 30, 2007 was as follows:

	June 30, 2006			June 30, 2007
	Balance	Drawn	Repaid	Balance
Participation in California Community College Financing Authority 2006 Tax and Revenue Anticipation Bonds	\$ _____ -	\$ _____ -	\$ _____ -	\$ _____ -

Short-term debt activity for the year ended June 30, 2006 was as follows:

	June 30, 2005			June 30, 2006
	Balance	Drawn	Repaid	Balance
Participation in California Community College Financing Authority 2005 Tax and Revenue Anticipation Bonds	\$ _____ -	\$ <u>4,975,000</u>	\$ <u>4,975,000</u>	\$ _____ -

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 7 LONG-TERM LIABILITIES

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

	Beginning Balance	Accretions/ Additions	Reductions	Ending Balance
Certificates of participation	\$ 85,031,225	\$ -	\$ 516,418	\$ 84,514,807
Limited obligation				
improvement bonds	6,555,247	-	510,106	6,045,141
General obligation bonds	96,248,606	55,799,480	3,277,228	148,770,858
Lease obligations	46,704	-	16,790	29,914
Total	<u>\$ 187,881,782</u>	<u>\$ 55,799,480</u>	<u>\$ 4,320,542</u>	<u>\$ 239,360,720</u>
Compensated absences	<u>\$ 2,262,467</u>	<u>\$ 1,763,083</u>	<u>\$ 1,637,790</u>	<u>\$ 2,387,760</u>
Memo total	<u>\$ 190,144,249</u>	<u>\$ 57,562,563</u>	<u>\$ 5,958,332</u>	<u>\$ 241,748,480</u>

The following is a summary of changes in long-term liabilities for the year ended June 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance
Certificates of participation	\$ 85,437,643	\$ -	\$ 406,418	\$ 85,031,225
Limited obligation				
improvement bonds	7,060,353	-	505,106	6,555,247
General obligation bonds	89,366,895	61,719,484	54,837,773	96,248,606
Lease obligations	117,138	-	70,434	46,704
Total	<u>\$ 181,982,029</u>	<u>\$ 61,719,484</u>	<u>\$ 55,819,731</u>	<u>\$ 187,881,782</u>
Compensated absences	<u>\$ 2,503,750</u>	<u>\$ 860,998</u>	<u>\$ 1,102,281</u>	<u>\$ 2,262,467</u>
Memo total	<u>\$ 184,485,779</u>	<u>\$ 62,580,482</u>	<u>\$ 56,922,012</u>	<u>\$ 190,144,249</u>

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 7 LONG-TERM LIABILITIES
(Continued)

Long-term debt consists of the following obligations at June 30, 2007 and 2006:

	June 30,	
	2007	2006
<u>Certificates of Participation</u>		
1998 Refunding Certificates of Participation issued in the original amount of \$48,000,000 by the Corporation. Final maturity 2028. Interest rates 4.10% to 5.00%.	\$ 45,065,000	\$ 45,610,000
2004 Certificates of Participation issued in the original amount of \$39,950,000 by the Corporation. Final maturity 2034. Interest rates at applicable Dutch Auction Rates until the Fixed Rate Conversion Date (to be determined).	<u>39,950,000</u>	<u>39,950,000</u>
Total certificates of participation	85,015,000	85,560,000
Discount on 1998 certificates of participation	<u>(500,193)</u>	<u>(528,775)</u>
Net certificates of participation	<u>84,514,807</u>	<u>85,031,225</u>
<u>Limited Obligation Improvement Bonds</u>		
2004 Refunding Bonds issued in the original amount of \$7,115,000. Final maturity 2017. Interest rates 1.90% to 4.10%.	<u>6,090,000</u>	<u>6,605,000</u>
Total limited obligation improvement bonds	6,090,000	6,605,000
Discount on limited obligation improvement bonds	<u>(44,859)</u>	<u>(49,753)</u>
Net limited obligation improvement bonds	<u>6,045,141</u>	<u>6,555,247</u>

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 7 LONG-TERM LIABILITIES
(Continued)

	June 30,	
	2007	2006
<u>General Obligation Improvement Bonds</u>		
Bonds issued in the original amount of \$7,556,642, including current interest bonds and capital appreciation bonds. Final maturity 2025. Interest rates 4.00% to 5.66%.	7,856,310	7,860,360
Bonds issued in the original amount of \$4,022,236, including current interest bonds and capital appreciation bonds. Final maturity 2027. Interest rates 3.55% to 5.57%.	4,225,821	4,168,835
Bonds issued in the original amount of \$75,240,068, including current interest bonds and capital appreciation bonds. Final maturity 2028. Interest rates 2.00% to 6.78%.	18,582,392	20,712,977
Bonds issued in the original amount of \$54,025,132, including current interest bonds and capital appreciation bonds. Final maturity 2021. Interest rates 3.00% to 5.00%.	54,922,007	54,415,882
Bonds issued in the original amount of \$49,999,533, including current interest bonds and capital appreciation bonds. Final maturity 2030. Interest rates 4.25% to 5.00%.	51,391,537	-
Total general obligation bonds	136,978,067	87,158,054
Premium on general obligation bonds	11,792,791	9,090,552
Net general obligation bonds	148,770,858	96,248,606

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 7 LONG-TERM LIABILITIES
(Continued)

	June 30,	
	2007	2006
<u>Lease Obligations</u>		
The District leases equipment with a cost of \$81,528 and accumulated depreciation of \$73,375 under lease/purchase agreements, which provide for title to pass upon expiration of the lease period.		
Future minimum lease payments are as follows:		
Year Ended June 30,		
2007	\$ -	\$ 20,350
2008	20,350	20,350
2009	<u>11,874</u>	<u>11,874</u>
Total	32,224	52,574
Less: Amount representing interest	<u>2,310</u>	<u>5,870</u>
Present value of net minimum lease payments	<u>29,914</u>	<u>46,704</u>
Total long-term debt	239,360,720	187,881,782
Less current portion	<u>4,238,384</u>	<u>3,701,792</u>
Total long-term debt, noncurrent portion	\$ <u>235,122,336</u>	\$ <u>184,179,990</u>

Refunded Debt

The 2005 General Obligation Improvement Bonds were issued to refund the Measure G Bonds. The District completed the refunding to reduce its debt service payments over the next 12 years by \$775,000 and obtain an economic gain of \$413,194. The District recognized a financial statement loss of \$1,739,101 on the refunding and it is being amortized over the life of the new debt.

Accretion

General obligation bonds as of June 30, 2007 and 2006 have been increased by \$4,252,462 and \$1,806,982, respectively, to include accumulated accretion of the capital appreciation bonds. Annual accretion is recognized as interest in the statement of activities.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 7 LONG-TERM LIABILITIES
(Continued)

The annual debt service requirements to maturity on the long-term debt issues are as follows:

Year Ended June 30,	Principal	Bonds Interest	Total	Bond Premium	Total
2008	\$ 4,220,000	\$ 8,086,137	\$ 12,306,137	\$ 653,572	\$ 12,959,709
2009	4,695,000	7,945,082	12,640,082	653,572	13,293,654
2010	5,235,000	7,750,629	12,985,629	653,572	13,639,201
2011	5,620,000	7,541,845	13,161,845	653,572	13,815,417
2012	6,133,841	7,966,877	14,100,718	653,572	14,754,290
2013 – 2017	36,846,292	40,742,597	77,588,889	3,271,938	80,860,827
2018 – 2022	71,495,777	22,568,285	94,064,062	3,003,850	97,067,912
2023 – 2027	52,433,625	44,196,469	96,630,094	1,160,275	97,790,369
2028 – 2032	29,076,070	41,178,930	70,255,000	543,816	70,798,816
2033 – 2037	<u>8,075,000</u>	<u>498,000</u>	<u>8,573,000</u>	-	<u>8,573,000</u>
Total	\$ <u>223,830,605</u>	\$ <u>188,474,851</u>	412,305,456	11,247,739	423,553,195
Less interest (excluding accretion of \$4,252,462)			<u>184,222,389</u>	-	<u>184,222,389</u>
Net principal			\$ <u>228,083,067</u>	\$ <u>11,247,739</u>	\$ <u>239,330,806</u>

NOTE 8 OPERATING LEASES

The District leases office and classroom facilities and other equipment under noncancelable operating leases. Total costs for such leases for the years ended June 30, 2007 and 2006 were \$369,010 and \$378,005, respectively.

The future minimum lease payments as of June 30, 2007, are as follows:

Year Ended June 30,	Amount
2008	\$ 363,854
2009	286,492
2010	53,747
2011	-
Total	\$ <u>704,093</u>

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 9 PENSION PLANS

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

A. Plan Descriptions and Provisions

1. *State Teachers' Retirement System (STRS)*

All certificated employees and those employees meeting minimum standards adopted by the Board of Governors of the California Community Colleges and employed 50 percent or more in a full-time equivalent position participate in the Defined Benefit Plan (DB Plan). Part-time educators hired under a contract of less than 50 percent or on an hourly or daily basis without contract may elect membership in the Cash Balance Benefit Program (CB Benefit Program). Since January 1, 1999, both of these plans have been part of the State Teachers' Retirement Plan (STRP), a cost-sharing, multiple-employer contributory public employee retirement system. The State Teachers' Retirement Law (Part 13 of the *California Education Code*, Section 22000 et seq.) established benefit provisions for STRS. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95851.

The STRP, a defined benefit pension plan, provides retirement, disability, and death benefits, and depending on which component of the STRP the employee is in, post-retirement cost-of-living adjustments may also be offered. Employees in the DB Plan attaining the age of 60 with five years of credited California service (service) are eligible for "normal" retirement and are entitled to a monthly benefit of two percent of their final compensation for each year of service. Final compensation is generally defined as the average salary earnable for the highest three consecutive years of service. The plan permits early retirement options at age 55 or as early as age 50 with at least 30 years of service. While early retirement can reduce the 2 percent factor used at age 60, service of 30 or more years will increase the percentage age factor to be applied.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 9 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

1. *State Teachers' Retirement System (STRS) (Continued)*

Disability benefits are generally the maximum of 50 percent of final compensation for most applicants. Eligible dependent children can increase this benefit up to a maximum of 90 percent of final compensation. After five years of credited service, members become 100 percent vested in retirement benefits earned to date. If a member's employment is terminated, the accumulated member contributions are refundable.

The features of the CB Benefit Program include immediate vesting, variable contribution rates that can be bargained, guaranteed interest rates, and flexible retirement options. Participation in the CB benefit plan is optional; however, if the employee selects the CB benefit plan and their basis of employment changes to half time or more, the member will automatically become a member of the DB Plan.

At June 30, 2007 and 2006, the District employed 394 and 436 certificated employees with a total annual payroll of \$38,704,244 and \$36,121,289, respectively.

2. *California Public Employees' Retirement System (CalPERS)*

All full-time classified employees participate in the CalPERS, an agent multiple-employer contributory public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California. The Kern Community College District is part of a "cost-sharing" pool within CalPERS. Employees are eligible for retirement as early as age 50 with five years of service. At age 55, the employee is entitled to a monthly benefit of 2.0 percent of final compensation for each year of service credit.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 9 PENSION PLANS
(Continued)

A. Plan Descriptions and Provisions (Continued)

2. *California Public Employees' Retirement System (CalPERS)* (Continued)

Retirement compensation is reduced if the plan is coordinated with Social Security. Retirement after age 55 will increase the percentage rate to a maximum of 2.5 percent at age 63 with an increased rate. The plan also provides death and disability benefits. Retirement benefits fully vest after five years of credited service. Upon separation from CalPERS, members' accumulated contributions are refundable with interest credited through the date of separation.

The Public Employees' Retirement Law (Part 3 of the *California Government Code*, Section 20000 et seq.) establishes benefit provisions for CalPERS. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

STRS: Active plan members are required to contribute 8.0% of their gross 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 Board based upon recommendations made by the consulting actuary. The required employer contribution rate for the fiscal years ended June 30, 2007 and 2006, were 8.25% of annual payroll for regular employees and 8.827% of annual payroll for reduced workload employees. The contribution requirements of the plan members are established by State statutes.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 9 PENSION PLANS
(Continued)

B. Funding Policy (Continued)

CalPERS: Active plan members are required to contribute 7.0% of their salary (7.0% 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 required employer contribution rate for the fiscal year ended June 30, 2007 and 2006, was 9.124% and 9.116% of annual payroll. The contribution requirements of the plan members are established by State statutes.

The District's required contributions for the last three years are as follows:

	Year Ended June 30,		
	2005	2006	2007
STRS	\$ 3,226,198	\$ 3,406,446	\$ 3,528,274
PERS	<u>1,910,658</u>	<u>1,797,436</u>	<u>1,839,564</u>
Total	<u>\$ 5,136,856</u>	<u>\$ 5,203,882</u>	<u>\$ 5,367,838</u>

All contributions were made in accordance with actuarially determined requirements and equal 100% of the required contribution for each year.

NOTE 10 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 disallowance under terms of the grants, management believes that any required reimbursements will not be material.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 11 RISK MANAGEMENT

The District participates in three joint ventures under joint powers agreements (JPA's) with the Self-Insured Schools of California Workers' Compensation Program (SISC I), Self-Insured Schools of California Property and Liability Program (SISC II), Self-Insured Schools of California Health Benefits Program (SISC III). Self-Insured Schools of California (SISC) arranges for and provides insurance for its members. SISC groups are governed by boards consisting of representatives from member districts. The boards control the operations of SISC, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in SISC.

Condensed combined financial information of SISC I, SISC II, and SISC III, for the most current year available is as follows:

	June 30, 2006		September 30, 2006
	SISC I	SISC II	SISC III
Total assets	\$ 87,031,972	\$ 25,446,753	\$ 169,709,390
Total liabilities	<u>69,285,255</u>	<u>23,596,341</u>	<u>89,889,667</u>
Fund balance	\$ <u>17,746,717</u>	\$ <u>1,850,412</u>	\$ <u>79,819,723</u>
 Total revenues	 \$ 28,143,828	 \$ 15,788,108	 \$ 677,877,968
Total expenditures	<u>19,305,587</u>	<u>20,543,088</u>	<u>658,227,186</u>
Net increase (decrease) in fund balance	\$ <u>8,838,241</u>	\$ <u>(4,754,980)</u>	\$ <u>19,650,782</u>

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

SISC I, SISC II, and SISC III did not have long-term debt outstanding at June 30, 2006 and September 30, 2006, respectively.

Financial statements are available from SISC upon request.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 12 POST-RETIREMENT HEALTH CARE

The District provides certain health care benefits for retired salaried employees. The District's salaried employees may become eligible for those benefits if they reach normal retirement age while working for the District. Those and similar benefits for active employees are covered as described in Note 11. The District recognizes the cost of providing these benefits on a pay-as-you-go basis. On June 30, 2007 and 2006, 188 and 200 employees were eligible to receive those benefits. The amount of benefit expenses recognized during the years ended June 30, 2007 and 2006 for retired employees was \$5,014,306 and \$4,687,489, respectively.

In addition, the District paid \$300,000 during the year ended June 30, 2007, to an irrevocable trust established through the District's membership in The Retiree Health Benefit Program Joint Powers Agency. This payment has been made in anticipation of the District adopting GASB No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, no later than the year ended June 30, 2009.

As of the date of these financial statements, management was progressing toward the determination of the actuarial liability related to these benefits.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 13 FUNCTIONAL EXPENSES

The following represents the functional presentation of total operating expenses of the District at June 30, 2007. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual*.

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	\$ 1,000,088	\$ 407,950	\$ 60,413	\$ -	\$ 1,468,451
Ancillary services	4,808,898	1,655,863	6,645,910	29,753	13,140,424
Auxiliary services	73,182	26,775	-	-	99,957
Community services and economic development	1,114,293	297,323	383,578	-	1,795,194
Depreciation expense	-	-	-	5,631,747	5,631,747
Institutional support services	7,910,736	4,911,108	5,520,079	-	18,341,923
Instructional administration	5,424,048	1,620,594	503,037	-	7,547,679
Instructional activities	38,515,565	11,436,731	3,601,239	-	53,553,535
Instructional support services	1,992,773	606,557	545,085	-	3,144,415
Long-term debt and other financing	-	-	107,517	-	107,517
Other student services	5,871,235	1,547,075	1,297,755	-	8,716,065
Physical property and related acquisitions	307,675	70,748	1,500,226	-	1,878,649
Planning policy making and coordination	1,185,460	402,158	856,270	-	2,443,888
Plant operations and maintenance	2,429,000	1,069,505	4,159,916	-	7,658,421
Student counseling and guidance	2,683,591	678,218	363,600	-	3,725,409
Transfers, student aid and other outgo	-	-	21,038,446	-	21,038,446
Total	\$ <u>73,316,544</u>	\$ <u>24,730,605</u>	\$ <u>46,583,071</u>	\$ <u>5,661,500</u>	\$ <u>150,291,720</u>

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 13 FUNCTIONAL EXPENSES
(Continued)

The following represents the functional presentation of total operating expenses of the District at June 30, 2006. The District allocates expenses to function based on departments as provided for in the *California Community College Budget and Accounting Manual*.

	Salaries	Employee Benefits	Supplies Materials and Other Expenses and Services	Depreciation and Amortization	Total
Admissions and records	\$ 995,947	\$ 416,342	\$ 56,010	\$ -	\$ 1,468,299
Ancillary services	4,954,038	1,760,475	6,573,513	-	13,288,026
Auxiliary services	30,237	4,736	-	-	34,973
Community services and economic development	15,210	4,676	10,302	-	30,188
Depreciation expense	-	-	-	4,586,046	4,586,046
Institutional support	6,701,453	4,523,840	6,490,165	-	17,715,458
Instructional administration	5,052,844	1,459,379	1,314,682	-	7,826,905
Instructional activities	37,781,645	11,315,795	2,437,720	-	51,535,160
Instructional support services	1,534,048	538,252	451,403	-	2,523,703
Long-term debt	-	-	61,138	-	61,138
Other	-	-	-	-	-
Physical property and related acquisitions	213,134	38,634	(1,510,384)	-	(1,258,616)
Planning policy making	1,528,145	523,121	597,288	-	2,648,554
Plant operations and maintenance	2,553,691	1,121,255	3,941,316	-	7,616,262
Student counseling and guidance	2,365,775	635,671	69,940	-	3,071,386
Student services	5,456,261	1,516,985	763,082	-	7,736,328
Transfers, student aid and other outgo	-	-	20,676,711	-	20,676,711
Total	\$ <u>69,182,428</u>	\$ <u>23,859,161</u>	\$ <u>41,932,886</u>	\$ <u>4,586,046</u>	\$ <u>139,560,521</u>

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 14 COMMITMENTS

As of June 30, 2007, the District had unfinished construction contracts under the following project categories:

Bakersfield College Fine Arts HVAC Replacement	\$ 286,847
Bakersfield College Fine Arts Re-roof	207,750
Bakersfield College Language Arts HVAC Replacement	12,392
Bakersfield College Weight Room HVAC	66,015
Cerro Coso Community College Gym Roof	8,300
Cerro Coso Community College Security Systems	152,570
Porterville College Child Development Center Relocatables	112,702
Porterville College Library Expansion	<u>12,248,756</u>
	<u>\$ 13,095,332</u>

As of June 30, 2006, the District had unfinished construction contracts under the following project categories:

Bakersfield College Applied Science and Technology Modernization	\$ 666,000
Bakersfield College Planetarium Modernization	24,745
Bakersfield College Southwest Center Modernization	1,161,735
Cerro Coso Community College Fine Arts Modernization	332,696
Cerro Coso Community College Administration Building Asbestos Abatements	33,000
Porterville College Child Development Center Relocatables	1,252,850
Porterville College Library Expansion	744,322
Porterville College Science Modernization	489,893
Porterville College Wellness Center Modernization	<u>511,466</u>
	<u>\$ 5,216,707</u>

NOTE 15 CHANGE IN REPORTING ENTITY

In previous years, fiduciary funds were excluded from the entity-wide financial statements. During the current year, management re-defined the reporting entity based on industry practices to include all fiduciary funds under the control of the District. Accordingly, the entity-wide statements of the District now include all of the funds of the District.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006

NOTE 15 CHANGE IN REPORTING ENTITY
(Continued)

The fiduciary funds added to the reporting entity due to this re-definition are: Associated Students Trust Fund; Student Representation Fee Trust Fund; and Student Body Fee Trust Fund.

Because of the fiduciary nature of these funds, income and expenses of these funds are not included in the reporting entity and any change in assets or liabilities of these funds cause a corresponding increase or decrease in the liability account, Amounts Held for Others.

Accordingly, this change had no impact on Net Assets of the prior period. Assets and liabilities as of June 30, 2006 have been restated in these financial statements.

	<u>As Previously Reported</u>	<u>Trust and Agency</u>	<u>As Revised</u>
Assets	\$ 332,953,588	\$ 1,138,960	\$ 334,092,548
Liabilities	203,748,568	1,138,960	204,887,528

NOTE 16 SUBSEQUENT EVENTS

On November 16, 2007, the Kern Community College District refunded its 1998 Refunding Certificates of Participation. The District issued \$47,275,000 of Auction Rate Securities. The securities are 7-Day Auction Rate securities. Auctions will occur every Thursday with interest payments due every Friday. Lease payments will occur in January of each year. The COP's mature on January 1, 2025.

KERN COMMUNITY COLLEGE DISTRICT
ORGANIZATION
JUNE 30, 2007

BOARD OF TRUSTEES

<u>Name</u>	<u>Office</u>	<u>Area</u>	<u>Term Expires</u>
Mrs. Kay S. Meek	President	Southwest Bakersfield	December 2008
Mr. Stuart O. Witt	Vice President	Ridgecrest	December 2010
Mr. John A. Rodgers	Clerk	Central Bakersfield	December 2010
Ms. Rose Marie Bans	Member	Northeastern Kern County	December 2008
Mr. Dennis Beebe	Member	Southwest Bakersfield	December 2008
Mr. John Corkins	Member	Porterville	December 2010
Mrs. Pauline Larwood	Member	Central Bakersfield	December 2010

ADMINISTRATION

<u>NAME</u>	<u>Office</u>
Ms. Sandra V. Serrano	Chancellor
Mr. Thomas J. Burke	Chief Financial Officer
Dr. Greg Chamberlain	Associate Chancellor, Educational Services
Mr. Victor R. Collins	Interim Vice Chancellor, Human Resources

KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-through Grantor/Program Title	Federal CFDA Number	Disbursements/ Expenditures
<u>FEDERAL EXPENDITURES:</u>		
<u>Department of Agriculture:</u>		
Passed through State Department of Education - Child Care Food Program	10.555	\$ 385,207
Total Department of Agriculture		<u>385,207</u>
<u>Department of Education:</u>		
Federal Supplemental Educational Opportunity Grants	84.007	553,744
Higher Education - Institutional Aid	84.031	985,521
Federal Family Education Loans	84.032	-
Federal Work-Study Program	84.033	494,597
TRIO - Student Support Services	84.042	237,500
Passed through State Department of Education - Vocational Education - Basic Grants to States	84.048	344,007
Federal Pell Grant Program	84.063	17,114,122
Fund for the Improvement of Postsecondary Education (FIPSE)	84.116	-
Vocational Education - Tech Prep Education	84.243	990,374
Academic Competitiveness Grant	84.375	17,775
Total Department of Education		<u>20,737,640</u>
<u>Department of Health and Human Services:</u>		
Passed through State Department of Education - Administration for Children and Families - Temporary Assistance for Needy Families (TANF)	93.558	226,430
Child Development Block Grant	93.575	41,197
Total Department of Health and Human Services		<u>267,627</u>
<u>Small Business Administration</u>		
Passed through Regents University of CA - SBDC UC Merced	59.037	146,173
Passed through College of Sequoia - Title V COS Cooperative	59.037	279,867
Total Small Business Administration		<u>426,040</u>
Total Federal Expenditures		<u>\$ 21,816,514</u>

The accompanying notes to the supplementary information are an
integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF STATE FINANCIAL AWARDS
YEAR ENDED JUNE 30, 2007

Description	Program Revenues			Total	Total Program Expenditures
	Cash Received	Increase (Decrease) Accounts Receivable	(Increase) Decrease in Deferred Income		
Extended Opportunity Programs and Services	\$ 2,229,810	\$ 198,100	\$ -	\$ 2,427,910	\$ 2,453,797
CalGrant	2,651,373	(96,878)	-	2,554,495	2,554,494
Disabled Students Programs and Services	2,032,567	175,069	-	2,207,636	2,197,146
CalWorks	858,471	-	(36,910)	821,561	768,285
Matriculation	1,159,832	109,384	-	1,269,216	1,440,880
Foster Parent	112,914	(41,339)	-	71,575	163,206
Economic Development Nursing	(1,018)	(17,602)	-	(18,620)	998
IDRC Grant	278,875	-	(184,352)	94,523	94,524
Project Care	348,471	29,963	-	378,434	378,434
BFAP	840,872	73,120	-	913,992	910,747
Small Business Center	135,503	23,999	-	159,502	153,825
Center for Excellence	101,100	16,400	-	117,500	85,838
REBRAC	143,340	(5,850)	-	137,490	229,634
Workplace Learning Center	200,820	77	-	200,897	204,911
Instructional Equipment Ongoing	184,663	16,056	-	200,719	58,951
PC Development Service	159,360	20,988	-	180,348	95,124
PC Development Center	440,985	41,073	-	482,058	450,158
TTIP	101,283	50,186	-	151,469	145,101
Psych Tech	620,989	(41,241)	-	579,748	582,287
Block Grant	749,139	-	-	749,139	351,775
Career Tech Equipment	634,589	-	-	634,589	634,998
Basic Skills	412,189	175,235	-	587,424	140,196
All other categorical	402,627	409,024	-	811,651	764,142
	<u>\$ 14,798,754</u>	<u>\$ 1,135,764</u>	<u>\$ (221,262)</u>	<u>\$ 15,713,256</u>	<u>\$ 14,859,451</u>

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF WORKLOAD MEASURES FOR
STATE GENERAL APPORTIONMENT
ANNUALIZED ATTENDANCE AS OF JUNE 30, 2007

Categories	Reported Data	Audit Adjustments	Revised Data
A. Summer Intersession (Summer 2006 Only)			
1. Noncredit	13.23		13.23
2. Credit	164.66		164.66
B. Summer Intersession (Summer 2007 Prior to July 1, 2007)			
1. Noncredit	-		-
2. Credit	1,505.68		1,505.68
C. Primary Terms (Exclusive of Summer Intersession)			
1. Census Procedure Courses			
(a) Noncredit	12,191.70		12,191.70
(b) Credit	699.87		699.87
2. Actual Hours of Attendance Procedures Courses			
(a) Noncredit	187.31		187.31
(b) Credit	1,790.96		1,790.96
3. Independent Study/Work Experience Education Courses			
(a) Weekly Census Procedure Courses	1,442.66		1,442.66
(b) Daily Census Procedure Courses	291.52		291.52
(c) Noncredit Independent Study/Distance Education Courses	-		-
D. Total FTES	<u>18,287.59</u>		<u>18,287.59</u>
Supplemental Information (Subset of above information)			
E. In-Service Training Courses (FTES)	583.75		583.75
H. Basic Skills Courses and Immigrant Education			
1. Noncredit	79.05		79.05
2. Credit	1,423.20		1,423.20
CCFS-320 Addendum			
CDCP Noncredit FTES	-		-
Centers FTES			
1. Noncredit	1.71		1.71
2. Credit	3,559.59		3,559.59

The accompanying notes to the supplementary information
are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF ANNUAL FINANCIAL
AND BUDGET REPORT (CCFS-311)
WITH DISTRICT ACCOUNTING RECORDS
YEAR ENDED JUNE 30, 2007

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund	Other Special Revenue Fund
June 30, 2007 Annual Financial and Budget Report (CCFS-311) Fund Balance	<u>\$ 20,578,339</u>	<u>\$ 19,160,088</u>	<u>\$ 43,014,741</u>	<u>\$ (101,725)</u>	<u>\$ 205,725</u>
Adjustment and reclassifications increasing (decreasing) the fund balance:					
District identified adjustments	1,319,888	433,707	55,093	244,155	-
Audit adjustments	-	-	-	-	-
Reclassification of amounts held for others	-	-	-	-	-
Rounding	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1</u>
Net adjustments and reclassifications	<u>1,319,888</u>	<u>433,707</u>	<u>55,093</u>	<u>244,155</u>	<u>1</u>
June 30, 2007 District Accounting Records Fund Balance	<u><u>\$ 21,898,227</u></u>	<u><u>\$ 19,593,795</u></u>	<u><u>\$ 43,069,834</u></u>	<u><u>\$ 142,430</u></u>	<u><u>\$ 205,726</u></u>

The accompanying notes to the supplementary information are an
integral part of this supplementary information.

Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund
<u>\$ 112,971,070</u>	<u>\$ 2,275,591</u>	<u>\$ (217,383)</u>	<u>\$ 47,344</u>	<u>\$ 110,884</u>	<u>\$ 442</u>	<u>\$ 27,997</u>	<u>\$ 501,538</u>
612,061	144,571	47,273	43,547	(109,984)	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	(442)	(27,997)	(501,538)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>612,061</u>	<u>144,571</u>	<u>47,273</u>	<u>43,547</u>	<u>(109,984)</u>	<u>(442)</u>	<u>(27,997)</u>	<u>(501,538)</u>
<u>\$ 113,583,131</u>	<u>\$ 2,420,162</u>	<u>\$ (170,110)</u>	<u>\$ 90,891</u>	<u>\$ 900</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

KERN COMMUNITY COLLEGE DISTRICT
COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2007

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 13,898,319	\$ -	\$ (2,534,913)	\$ (96,547)
Restricted cash	7,191,694	19,501,630	-	-
Accounts receivable	10,648,124	175,140	563,621	296,345
Prepaid expenses	503,169	-	-	-
Inventories	-	-	-	-
Due from other funds	56,310	-	-	-
Total current assets	32,297,616	19,676,770	(1,971,292)	199,798
Noncurrent assets:				
Restricted investments	-	-	45,041,126	-
Capital assets, net	-	-	-	-
Total noncurrent assets	-	-	45,041,126	-
Total assets	\$ 32,297,616	\$ 19,676,770	\$ 43,069,834	\$ 199,798
LIABILITIES				
Accounts payable	\$ 6,984,237	\$ 7,975	\$ -	\$ 7,368
Deferred revenue	3,415,152	-	-	50,000
Due to other funds	-	75,000	-	-
Amounts held for others	-	-	-	-
Total liabilities	10,399,389	82,975	-	57,368
FUND EQUITY (DEFICIT):				
Fund balances:				
Reserved for debt service	-	19,593,795	43,069,834	-
Reserved for special purposes	6,108,807	-	-	142,430
Unreserved:				
Undesignated	15,789,420	-	-	-
Total fund equity (deficit)	21,898,227	19,593,795	43,069,834	142,430
Total liabilities and fund equity (deficit)	\$ 32,297,616	\$ 19,676,770	\$ 43,069,834	\$ 199,798

(Continued on following page)

The accompanying notes to the supplementary information are an
integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
\$ 205,726	\$ 2,168,805	\$ 108,498	\$ (206,560)	\$ -	\$ -	\$ -
-	109,502,056	-	-	56,872	(932,563)	519,524
-	2,930,901	348,709	24,691	34,019	933,463	-
-	-	-	-	-	-	-
-	-	1,383,503	17,008	-	-	-
-	270	-	-	-	-	-
<u>205,726</u>	<u>114,602,032</u>	<u>1,840,710</u>	<u>(164,861)</u>	<u>90,891</u>	<u>900</u>	<u>519,524</u>
-	-	-	-	-	-	-
-	-	660,945	-	-	-	-
-	-	660,945	-	-	-	-
<u>\$ 205,726</u>	<u>\$ 114,602,032</u>	<u>\$ 2,501,655</u>	<u>\$ (164,861)</u>	<u>\$ 90,891</u>	<u>\$ 900</u>	<u>\$ 519,524</u>
\$ -	\$ 1,020,121	\$ 79,942	\$ 5,249	\$ -	\$ -	\$ -
-	17,200	1,551	-	-	-	-
-	(18,420)	-	-	-	-	-
-	-	-	-	-	-	519,524
-	1,018,901	81,493	5,249	-	-	519,524
-	-	-	-	-	-	-
205,726	113,583,131	2,420,162	(170,110)	90,891	900	-
-	-	-	-	-	-	-
<u>205,726</u>	<u>113,583,131</u>	<u>2,420,162</u>	<u>(170,110)</u>	<u>90,891</u>	<u>900</u>	<u>-</u>
<u>\$ 205,726</u>	<u>\$ 114,602,032</u>	<u>\$ 2,501,655</u>	<u>\$ (164,861)</u>	<u>\$ 90,891</u>	<u>\$ 900</u>	<u>\$ 519,524</u>

KERN COMMUNITY COLLEGE DISTRICT
COMBINING BALANCE SHEET - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY

JUNE 30, 2007

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ -	\$ -	\$ 13,543,328
Restricted cash	45,389	557,481	136,442,083
Accounts receivable	-	-	15,955,013
Prepaid expenses	-	-	503,169
Inventories	-	-	1,400,511
Due from other funds	-	-	56,580
Total current assets	45,389	557,481	167,900,684
Noncurrent assets:			
Restricted investments	-	-	45,041,126
Capital assets, net	-	-	660,945
Total noncurrent assets	-	-	45,702,071
Total assets	\$ 45,389	\$ 557,481	\$ 213,602,755
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ 8,104,892
Deferred revenue	-	-	3,483,903
Due to other funds	-	-	56,580
Amounts held for others	45,389	557,481	1,122,394
Total liabilities	45,389	557,481	12,767,769
FUND EQUITY (DEFICIT):			
Fund balances:			
Reserved for debt service	-	-	62,663,629
Reserved for special purposes	-	-	122,381,937
Unreserved:			
Undesignated	-	-	15,789,420
Total fund equity (deficit)	-	-	200,834,986
Total liabilities and fund equity (deficit)	\$ 45,389	\$ 557,481	\$ 213,602,755

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY
YEAR ENDED JUNE 30, 2007

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
OPERATING REVENUES				
Tuition and fees	\$ 13,294,910	\$ -	\$ -	\$ -
Less: scholarship discount and allowance	6,160,541	-	-	-
Net tuition and fees	7,134,369	-	-	-
Grants and contracts, non-capital:				
Federal	4,733,774	-	-	316,473
State	13,523,959	-	-	3,822,821
Local	1,625,341	-	-	-
Auxiliary enterprise sales and charges	35,917	-	-	-
Other operating revenues	436,966	2,577,172	-	90,662
Total operating revenues	27,490,326	2,577,172	-	4,229,956
OPERATING EXPENDITURES/EXPENSES				
Salaries	68,641,174	-	-	2,974,632
Employee benefits	23,189,804	-	-	1,089,144
Payments to students	826,833	-	-	-
Supplies, materials, and other operating expenditures/expenses and services	13,685,025	88,959	2,572,503	351,537
Capital outlay	1,643,407	-	-	-
Utilities	3,623,074	-	-	63,670
Depreciation	-	-	-	-
Total operating expenditures/expenses	111,609,317	88,959	2,572,503	4,478,983
OPERATING INCOME (LOSS)	(84,118,991)	2,488,213	(2,572,503)	(249,027)
NON-OPERATING REVENUES (EXPENDITURES)				
State apportionments, non-capital	50,004,668	-	-	-
Local property taxes	38,323,413	-	-	-
State taxes and other revenues	3,477,691	36,366	-	-
Investment income, non-capital	783,135	901,708	2,763,083	22,767
Debt service	-	(11,557,241)	-	-
Other non-operating expenditures/expenses	(901,144)	-	-	-
Total non-operating revenues (expenditures)	91,687,763	(10,619,167)	2,763,083	22,767

(Continued on following page)

The accompanying notes to the supplementary information are an
integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
\$ -	\$ 32,635	\$ -	\$ 275	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
-	32,635	-	275	-	-	-
-	-	-	-	417,646	17,106,891	-
-	-	-	-	-	2,554,495	-
28,233	64,231	(27,374)	(10,937)	-	-	-
-	-	7,100,515	1,093,204	-	-	-
-	877,712	347,684	-	-	-	-
28,233	974,578	7,420,825	1,082,542	417,646	19,661,386	-
-	197,159	985,629	392,653	-	-	-
-	41,345	249,011	161,301	-	-	-
-	-	-	-	440,243	19,771,370	-
11,224	10,232,150	5,588,685	534,268	-	-	-
6,542	57,512	-	-	-	-	-
-	-	1,303	6,820	-	-	-
-	-	30,220	-	-	-	-
17,766	10,528,166	6,854,848	1,095,042	440,243	19,771,370	-
10,467	(9,553,588)	565,977	(12,500)	(22,597)	(109,984)	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	4,117,896	3,272	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	4,117,896	3,272	-	-	-	-

KERN COMMUNITY COLLEGE DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY
YEAR ENDED JUNE 30, 2007

	General Fund	Bond Interest and Redemption Fund	Other Debt Service Fund	Child Development Fund
Income (loss) before other revenues and expenditures	7,568,772	(8,130,954)	190,580	(226,260)
OTHER REVENUES AND EXPENDITURES				
State apportionments, capital	-	-	-	-
Local property taxes and revenues, capital	-	6,275,200	-	-
Excess of revenues over (under) expenditures	7,568,772	(1,855,754)	190,580	(226,260)
OTHER FINANCING SOURCES (USES)				
Operating transfers in	2,121,894	-	255,000	67,198
Operating transfers out	(2,146,039)	-	-	(21,712)
Limited obligation improvement bonds issued	-	2,518,634	-	-
Payment to refunded bond escrow agent	-	-	-	-
Total other financing sources (uses)	(24,145)	2,518,634	255,000	45,486
Excess of revenues and other financing sources over (under) expenditures and other financing uses	7,544,627	662,880	445,580	(180,774)
FUND EQUITY (DEFICIT), BEGINNING OF YEAR, AS RESTATED	14,353,600	18,930,915	42,624,254	323,204
FUND EQUITY (DEFICIT), END OF YEAR	<u>\$ 21,898,227</u>	<u>\$ 19,593,795</u>	<u>\$ 43,069,834</u>	<u>\$ 142,430</u>

(Continued on following page)

The accompanying notes to the supplementary information are an
integral part of this supplementary information.

Other Special Revenue Fund	Capital Outlay Projects Fund	Bookstore Fund	Cafeteria Fund	Student Financial Aid Fund	Other Trust Fund	Associated Students Trust Fund
10,467	(5,435,692)	569,249	(12,500)	(22,597)	(109,984)	-
-	3,869,784	-	-	-	-	-
-	-	-	-	-	-	-
10,467	(1,565,908)	569,249	(12,500)	(22,597)	(109,984)	-
-	1,849,763	-	-	48,735	-	-
-	(1,849,763)	(300,000)	-	(25,076)	-	-
-	49,999,533	-	-	-	-	-
-	-	-	-	-	-	-
-	49,999,533	(300,000)	-	23,659	-	-
10,467	48,433,625	269,249	(12,500)	1,062	(109,984)	-
195,259	65,149,506	2,150,913	(157,610)	89,829	110,884	-
<u>\$ 205,726</u>	<u>\$ 113,583,131</u>	<u>\$ 2,420,162</u>	<u>\$ (170,110)</u>	<u>\$ 90,891</u>	<u>\$ 900</u>	<u>\$ -</u>

KERN COMMUNITY COLLEGE DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY
YEAR ENDED JUNE 30, 2007

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
OPERATING REVENUES			
Tuition and fees	\$ -	\$ -	\$ 13,327,820
Less: scholarship discount and allowance	-	-	6,160,541
Net tuition and fees	-	-	7,167,279
Grants and contracts, non-capital:			
Federal	-	-	22,574,784
State	-	-	19,901,275
Local	-	-	1,679,494
Auxiliary enterprise sales and charges	-	-	8,229,636
Other operating revenues	-	-	4,330,196
Total operating revenues	-	-	63,882,664
OPERATING EXPENDITURES/EXPENSES			
Salaries	-	-	73,191,247
Employee benefits	-	-	24,730,605
Payments to students	-	-	21,038,446
Supplies, materials, and other operating expenditures/expenses and services	-	-	33,064,351
Capital outlay	-	-	1,707,461
Utilities	-	-	3,694,867
Depreciation	-	-	30,220
Total operating expenditures/expenses	-	-	157,457,197
OPERATING INCOME (LOSS)	-	-	(93,574,533)
NON-OPERATING REVENUES (EXPENDITURES)			
State apportionments, non-capital	-	-	50,004,668
Local property taxes	-	-	38,323,413
State taxes and other revenues	-	-	3,514,057
Investment income, non-capital	-	-	8,591,861
Debt service	-	-	(11,557,241)
Other non-operating expenditures/expenses	-	-	(901,144)
Total non-operating revenues (expenditures)	-	-	87,975,614

(Continued on following page)

The accompanying notes to the supplementary information are an
integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES/EXPENSES
AND CHANGES IN FUND EQUITY - DISTRICT FUNDS
INCLUDED IN THE REPORTING ENTITY
YEAR ENDED JUNE 30, 2007

	Student Representation Fee Trust Fund	Student Body Center Fee Trust Fund	Total
Income (loss) before other revenues and expenditures	-	-	\$ (5,598,919)
OTHER REVENUES AND EXPENDITURES			
State apportionments, capital	-	-	3,869,784
Local property taxes and revenues, capital	-	-	6,275,200
Excess of revenues over (under) expenditures	-	-	4,546,065
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	-	4,342,590
Operating transfers out	-	-	(4,342,590)
Limited obligation improvement bonds issued	-	-	52,518,167
Payment to refunded bond escrow agent	-	-	-
Total other financing sources (uses)	-	-	52,518,167
Excess of revenues and other financing sources over (under) expenditures and other financing uses	-	-	57,064,232
FUND EQUITY (DEFICIT), BEGINNING OF YEAR, AS RESTATED	-	-	143,770,754
FUND EQUITY (DEFICIT), END OF YEAR	\$ -	\$ -	\$ 200,834,986

The accompanying notes to the supplementary information are an
integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF FUND EQUITY TO NET ASSETS
JUNE 30, 2007

Total Fund Equity - District Funds Included in the Reporting Entity		\$ 200,834,986
Assets recorded within the GASB 35 Statement of Net Assets not included in the District fund financial statements:		
Depreciable capitalized assets	\$ 177,047,753	
Accumulated depreciation	<u>(50,755,754)</u>	126,291,999
Nondepreciable capital assets		51,932,133
Deferred costs, net		4,762,228
Additional Allowance for Doubtful Accounts		(241,740)
Liabilities recorded within the GASB 35 Statement of Net Assets not recorded in the District fund financial statements:		
Accounts payable:		
Interest payable		(1,978,520)
Retentions payable		(387,996)
Compensated absences	(2,387,760)	
Long-term debt	<u>(239,360,720)</u>	<u>(241,748,480)</u>
Net assets reported within the GASB 35 Statement of Net Assets		<u>\$ 139,464,610</u>

The accompanying notes to the supplementary information are an
integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT
RECONCILIATION OF CHANGE IN FUND EQUITY
TO INCREASE IN NET ASSETS
YEAR ENDED JUNE 30, 2007

Total Net Change in Fund Equity - District Funds Included in the Reporting Entity	\$ 57,064,232
Compensated absence expense addition reported within GASB 35 Statements	(125,297)
Depreciation expense reported within GASB 35 Statements	(5,631,280)
Additional Allowance for Doubtful accounts reported within GASB 35 Statements	(241,740)
Amortization of bond issuance cost reported within the GASB 35 Statements	(267,424)
Amortization of bond premium reported within the GASB 35 Statements	618,750
Capital outlay expense not reported within the GASB 35 Statements	10,982,592
Retentions payable reported within the GASB 35 Statements	(387,996)
Increase in interest expense for capital asset related debt reported within the GASB 35 Statements	(2,935,872)
Costs from issuance of bonds not reported within the GASB 35 Statements	835,832
Proceeds from issuance of bonds not reported within the GASB 35 Statements	(53,353,999)
Principal payments on debt not reported within the GASB 35 Statements	<u>3,701,792</u>
Net increase in net assets reported within the GASB 35 Statement of Revenues, Expenses, and Changes in Net Assets	<u>\$ 10,259,590</u>

The accompanying notes to the supplementary information are an integral part of this supplementary information.

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

NOTE 1 PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards

The audit of the Kern Community College District for the year ended June 30, 2007 was conducted in accordance with OMB Circular A-133, which requires disclosure of the financial activities of all federally funded programs. To comply with A-133 and state requirements, the Schedule of Expenditures of Federal Awards and Schedule of State Financial Awards were prepared for the Kern Community College District.

The schedules have been prepared on the accrual basis of accounting.

Schedule of Workload Measures for State General Apportionment

The Schedule of Workload Measures for State General Apportionment Annualized Attendance as of June 30, 2007, represents the basis of apportionment of the Kern Community College District's annual source of funding.

Reconciliation of Annual Financial and Budget Report (CCFS-311) with District Accounting Records

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Form CCFS-311 to the District Accounting Records.

NOTE 2 FEDERAL FAMILY EDUCATIONAL LOAN PROGRAM

The District granted \$1,836,965 in loans under the Federal Family Education Loan Program for the year ended June 30, 2007.

(Continued on following page)

KERN COMMUNITY COLLEGE DISTRICT
NOTES TO THE SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

NOTE 3 COMBINING FINANCIAL STATEMENTS SUMMARY OF SIGNIFICANT
ACCOUNTING POLICIES

Basis of Accounting

The accompanying Combining Balance Sheet – District Funds Included in the Reporting Entity, Combining Statement of Revenues, Expenditures/Expenses, and Changes in Fund Equity – District Funds Included in the Reporting Entity are presented on the modified accrual basis of accounting with the exception of the Bookstore and Cafeteria funds which are presented on the accrual basis of accounting consistent with the presentation in the entity-wide financial statements.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable" and "available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers property taxes available if they are collected within 60 days after year end. A one-year availability period is used for revenue recognition for all other governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. Principal and interest on general long-term debt are recorded as fund liabilities when due or when amounts have been accumulated in the debt service fund for payments to be made early in the following year.

Property taxes, franchise taxes, licenses, interest revenue and charges for services are susceptible to accrual. Other receipts become measurable and available when cash is received by the District and are recognized as revenue at that time.

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

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

Board of Trustees
Kern Community College District
Redding, California

We have audited the financial statements of the business-type activities of the Kern Community College District (District) as of and for the years ended June 30, 2007 and 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 21, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the standards prescribed by the State Department of Finance.

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 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 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 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

We noted certain other matters that we have reported to management of the District in a separate letter dated December 21, 2007.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 21, 2007

INDEPENDENT AUDITORS' 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
Kern Community College District
Bakersfield, California

Compliance

We have audited the compliance of Kern 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, 2007. The 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 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, 2007.

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.

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 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 audit committee, Board of Trustees, management, others within the entity, federal awarding agencies, Chancellor's Office, State Department of Finance, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Nystrom & Company LLP

December 21, 2007

INDEPENDENT AUDITORS' REPORT
ON STATE COMPLIANCE REQUIREMENTS

Board of Trustees
Kern Community College District
Bakersfield, California

We have audited the accompanying financial statements of the business-type activities of Kern Community College District (District) as of and for the years ended June 30, 2007 and 2006, and have issued our report thereon dated December 21, 2007.

Our audit was conducted 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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the standards prescribed by the State Department of Finance and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

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

ANNUAL COMPLIANCE FOCUS

General Directives Testing Structure

1. State General Apportionment Required Data Elements

Administration Testing Structure

1. Fiscal Operations – Salaries of Classroom Instructors: 50 Percent Law
2. Fiscal Operations – GANN Limit Calculation
3. Apportionments – Residency Determination for Credit Courses
4. Apportionments – Concurrent Enrollment of K-12 Students in Community College Credit Courses

5. Apportionments – Apportionment for Instructional Service Agreements/Contracts
6. Apportionments – Enrollment Fee
7. Apportionments – Students Actively Enrolled
8. Open Enrollment
9. Minimum Conditions – “Standards of Scholarship”
10. Student Fee – Instructional Materials and Health Fees

Student Services Testing Structure

1. Matriculation – Uses of Matriculation Funds
2. CalWORKs – Use of State and Federal TANF Funding

Facilities

1. Scheduled Maintenance Program

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 audit.

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

In our opinion, except for the finding 2007-1, described in the accompanying schedule of findings and questioned costs, the District complied, in all material respects, with the aforementioned requirements for the year ended June 30, 2007.

This report is intended solely for the information and use of the District's management, the Board of Trustees, audit committee, and others within the District, California Community Colleges Chancellor's Office, 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.

Nystrom & Company LLP

December 21, 2007

KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

A. SUMMARY OF AUDITORS' RESULTS

1. The Independent Auditors' Report expresses an unqualified opinion on the financial statements of Kern Community College District.
2. No significant deficiencies relating to the audit of the financial statements are reported in the 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*.
3. No instances of noncompliance material to the financial statements of Kern Community College District were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditors' Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.
5. The independent auditors' report on compliance for the major federal award programs for Kern Community College District expresses an unqualified opinion.
6. There are no audit findings relative to the major federal award programs for Kern Community College District.
7. The programs tested as major programs include: 1) Federal Supplemental Educational Opportunity Grants Program (CFDA 84.007); Federal Family Education Loan Program (CFDA 84.032); Federal Work Study Program (CFDA 84.033); Academic Competitiveness Grant (CFDA 84.375); and Federal Pell Grant Program (CFDA 84.063), which, together comprise the student financial aid "cluster" program as defined in the Compliance Supplement.
8. The threshold for distinguishing Type A and B programs was \$654,495.
9. Kern Community College District qualified as a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENTS AUDIT

NONE

KERN COMMUNITY COLLEGE DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2007

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

NONE

D. FINDINGS – STATE COMPLIANCE AUDIT

2007-1 – Concurrent Enrollment - Summer School

Statement of Condition: During our testing we noted that the District does not have a process in place that requires high school principals to certify that they are not recommending greater than 5% of the total number of pupils for concurrent enrollment in summer school. While this is a requirement for the high schools, the Chancellor's office requires that Community College District's obtain certifications (or documentation that is equivalent) from the high school districts.

Cause of Condition: District was aware of the requirement and sent out letters to the high school districts; however the District does not require the certifications in writing.

Effect of Condition: The District is not in compliance with the Chancellor's Office requirements.

Recommendation: The District should add a certification above the principal's signature line on the Summer concurrent enrollment forms.

Response: Below is question 16 from the Q&A document issued by the California Community College Chancellor's Office regarding SB 338.

Question 16: Who enforces the 5 percent limitation on summer session enrollments in section 48800(d)? It is the responsibility of the K-12 district to ensure that the 5 percent limitation on summer school enrollments is honored.

Based on this response from the Chancellor's office we disagree with your finding of non-compliance. However, we have no objection to implementing your recommendation and will do so for the summer 2008 term by adding a certification above the principal's signature line on the summer concurrent enrollment forms.

KERN COMMUNITY COLLEGE DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2007

2006-1 – Noncredit Courses

Statement of Condition: During our testing in the prior year, we noted that the District did not perform self-assessments for all noncredit courses as requested by the state Chancellor's Office in April 2005. California districts were requested to perform self-assessments of all noncredit courses but were only required to submit the computer/library lab courses self-assessments to the Chancellor's office.

Recommendation: Management recommended that the District complete self-assessments of all noncredit courses as requested by the Chancellor's office.

Status: Management has completed self assessments of all noncredit courses and have implemented a program of review for all noncredit courses.

2006-2 – Receipt and Expenditure of Lottery Funds

Statement of Condition: During our testing we noted that while the District maintains a separate account for the receipt of lottery funds they do not have a separate account or subfund for the expenditure of lottery funds. These amounts are currently broken out manually for purposes of the 50% Law calculation.

Recommendation: We recommended that the District create an account or subfund to track the expenditure of lottery funds.

Status: During our current year audit, we noted that the District has a separate account to track lottery expenditures.

2005-1 – Apportionment for Instructional Service Agreements/Contracts

Statement of Condition: During our testing in the prior year we noted that the instructional service agreement with the City of Bakersfield did not contain the required certification that the direct education costs of the activity were not fully funded through other sources.

Recommendation: We recommended that the District develop procedures to assure that all new instructional service agreements contain the required language.

Status: During our current year audit, we noted that the District included the required language in all new agreements.

INDEPENDENT AUDITORS' COMMUNICATION
TO THE AUDIT COMMITTEE

Audit Committee
Board of Trustees
Kern Community College District
Bakersfield, California

In planning and performing our audit of the basic financial statements of Kern Community College District (District) for the year ended June 30, 2007, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control. However, during our audit, we became aware of one matter that is an opportunity for strengthening internal controls and operating efficiency.

This letter does not affect our report dated December 21, 2007, on the financial statements of Kern Community College District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

None noted.

FOLLOW UP ON PRIOR YEAR FINDINGS AND RECOMMENDATIONS

2006-A – RETURN OF TITLE IV FUNDS

Finding

During our testing we noted that the Title IV funds for recipients who withdrew were not being returned within 30 days of becoming aware that the student had dropped in accordance with the requirements for the return of Title IV funds.

Recommendation

The District should develop procedures to assure that all funds are returned within 30 days of notification that a student has dropped.

Status

The District implemented policies effective January 2005 to conform to the regulations related to the return of Title IV funds; however, in our current year audit we continued to note minor instances where the funds were not returned per the requirements due to the timing of the processing of drops. The District will continue to refine its processes to eliminate any instances of the funds being returned late.

2005-B – FRAUD RISK ASSESSMENT AND MONITORING

Finding

During our audit of the prior year, we noted that the Board does not have a formal system for overseeing the District's assessment of the risks of fraud and the programs and controls the District has established to mitigate these risks. In addition, the District does not have a formal system in place to assess the risks of fraud nor any formal programs or controls to mitigate these risks.

Recommendation

Though we noted no instances of fraud in the course of our audit, we recommended that the District develop a formal system to assess the risks of fraud and implement formal programs and controls to mitigate these risks. In addition, we recommended that the Board formalize a system to oversee the District's fraud risk assessment and monitoring process. These systems will help the District to reduce its susceptibility to loss due to fraud and appropriately address fraud should it occur.

Status

Management is investigating a third party reporting system and expects implementation by June 30, 2008.

We would like to thank District management and staff for their assistance throughout the audit engagement. We appreciate the opportunity of serving as independent auditors for the Kern Community College District for the year ended June 30, 2007. If we can provide additional information or assistance in connection with implementing any of our recommendations, we will be pleased to do so.

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

NYSTROM & COMPANY LLP
Certified Public Accountants

Nystrom & Company LLP

December 21, 2007

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE LEGAL DOCUMENTS*

The following are brief summaries of certain provisions of the Lease Agreement, the Assignment Agreement, the Site Lease and the Trust Agreement. These summaries are subject to all of the provisions of such documents and the discussions of such documents contained elsewhere in this Official Statement. These summaries do not purport to be a complete statement of said provisions and prospective purchasers of the Certificates are referred to the complete texts of said documents, copies of which are available upon request from the Trustee. Capitalized terms not otherwise defined therein have the meanings specified in the respective documents and in the event of any conflict between any of the summaries and the corresponding documents, the provisions of such documents shall control. Copies of said documents are available from the District and from the Trustee.

DEFINITIONS**

"*Additional Payments*" means such additional costs and expenses incurred by the District, the Trustee, the Certificate Insurer and the Corporation as described in the Lease Agreement.

"*Affiliate*" means any specified Person which directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlling," "controlled by," and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person.

"*Agent Member*" means a member of, or participant in DTC.

"*Agency Agreement*" means the Agency Agreement dated as of March 1, 2004, by and between the District and the Corporation providing for the appointment of the District as the agent to carry out the implementation of the improvements comprising the Facility.

"*Assignment Agreement*" means the Assignment Agreement dated as of March 1, 2004, by and between the Trustee and the Corporation, providing for the assignment of the Corporation's interest in the Lease Agreement to the Trustee.

"*Authorized Denomination*" means denominations of \$25,000 and any integral multiple thereof.

"*Business Day*" means a day other than a Saturday, a Sunday, legal holiday or a day on which the Federal Reserve System or the New York Stock Exchange is closed or banks in the city in which the corporate trust office of the Trustee is located are authorized or obligated by law or executive order to close.

"*Capitalized Interest Account*" means the account by that name created in the Lease Payment Fund pursuant to Section 5.02 of the Trust Agreement.

*Preliminary, subject to change

**Additional Definitions are included in the Trust Agreement and other documents.

"Certificate" or "Certificates" means the \$_____ aggregate principal amount of Kern Community College District Certificates of Participation (2008 Conversion of 2004 Variable Rate Certificates) to be executed and delivered pursuant to the Trust Agreement.

"Certificate Insurance Policy" means the financial guaranty insurance policy issued by the Certificate Insurer insuring the payment when due of the principal of and interest on the Certificates when due as provided therein.

"Certificate Insurer" means AMBAC Assurance Corporation, a Wisconsin-domiciled stock insurance company, or any successor thereto, or thereof.

"Certificate Register" means the books or other records maintained by the Certificate Registrar setting forth the registered Owners from time to time of the Certificates.

"Certificate Registrar" means the Trustee acting as such, and any other Certificate Registrar appointed pursuant to the Trust Agreement.

"Certificate Reserve Fund" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"Certificate Reserve Fund Requirement" means _____ Dollars (\$_____).

"Closing Date" means the date upon which there is a physical delivery of the Certificates in exchange for the amount representing the purchase price of the Certificates by the Underwriter.

"Code" means the Internal Revenue Code of 1986, as amended, as in effect on the Closing Date or (except as otherwise referenced in the Lease Agreement or the Trust Agreement) as it may be amended to apply to obligations issued on the Closing Date, together with applicable proposed, temporary and final regulations promulgated, and applicable official public guidance published, under the Code. Reference to any particular Code section shall, in the event of such successor Code, be deemed to be reference to the successor to such Code section.

"Continuing Disclosure Certificate" means that certain Continuing Disclosure Certificate executed by the District and dated the date of issuance and delivery of the Certificates, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Conversion Fund" means the fund by that name established and held by the Trustee pursuant to Section 5.08 of the Trust Agreement.

"Conversion Fund Escrow Agreement" means the escrow agreement defined in the Trust Agreement.

"Corporation" means Kern Community District Public Facilities Corporation, a nonprofit, public benefit corporation organized and existing under the laws of the State of California, and its successors and assigns.

"Counsel" means an attorney at law or a firm of attorneys (who may be an employee of or counsel to the District or the Trustee) duly admitted to the practice of law before the highest court of any state of the United States of America or of the District of Columbia.

"*Corporation Representatives*" means the President, Vice President or any other person authorized by resolution of the Board of Directors of the Corporation to act on behalf of the Corporation under or with respect to the Trust Agreement, the Lease Agreement, the Site Lease and any of the other Transaction Documents to which the Corporation is a party.

"*Date of Certificates*" means July*, 2008.

"*Debt Service*" means the scheduled amount of interest and amortization of principal payable with respect to the Certificates during the period of computation, excluding amounts scheduled during such period which relate to principal which has been retired before the beginning of such period.

"*Defeasance Obligations*" means (a) cash, (b) non-callable Federal Securities, and (c) debt obligations of the Government National Mortgage Association.

"*Delivery Costs*" means all costs and expenses directly or indirectly payable by or reimbursable to the District and related to the authorization, issuance, execution and delivery of the Certificates including, but not limited to:

- (a) underwriter's discount and fees;
- (b) counsel fees, including Special Counsel, underwriter's counsel, Corporation counsel, District counsel, counsel to the Certificate Insurer, as well as any other specialized counsel fees incurred in connection with the financing;
- (c) the District's fees and expenses incurred in connection with the issuance of the Certificates, including financial advisor and administrative fees;
- (d) rating agency fees;
- (e) initial fees and expenses of the Trustee including related legal fees and charges, fees and disbursements;
- (f) title insurance premiums and recording fees;
- (g) costs of preparation and reproduction of documents, printing expenses;
- (h) consultants and professionals;
- (i) printing costs of the Certificates and of an official statement or other offering documents; and
- (j) any other cost, charge or fee in connection with the original issuance of the Certificates.

"*Delivery Costs Fund*" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"*Delivery Date*" means the Closing Date.

"*District*" means the Kern Community College District, a political subdivision organized and existing under and by virtue of the Constitution and laws of the State, and its successors and assigns.

"*District Representative*" means the Chancellor, Chief Financial Officer, or any other person authorized by resolution of the Board of Trustees of the District to act on behalf of the District under or with respect to the Trust Agreement, the Lease Agreement, the Site Lease and any of the other Transaction Documents to which the District is a party.

"*DTC*" or "Depository" means The Depository Trust Company, New York, New York, as Securities Depository for the Certificates pursuant the Trust Agreement.

"*2004 Certificates*" means the District's \$39,950,000 Variable Rate Certificates of Participation (2004 Capital Improvements Projects), dated March 11, 2004.

"*2004 Trust Agreement*" means the Trust Agreement entered into among the Trustee, the District and the Corporation, dated as of March 1, 2004.

"*2004 Trustee*" means Deutsche Bank National Trust Company, the trustee under the 2004 Trust Agreement with respect to the 2004 Certificates.

"*Event of Default*" means an event of default under the Lease Agreement, as defined in the Lease Agreement.

"*Existing Improvements*" means those District facilities and improvements located on the Site as of the Closing Date.

"*Facility*" means the Site, the Existing Improvements and that portion of the Improvements on the Site.

"*Fair Market Value*" means the price at which a willing buyer would purchase the investment from a willing seller in a bona fide, arm's length transaction (determined as of the date the contract to purchase or sell the investment becomes binding) if the investment is traded on an established securities market (within the meaning of Section 1273 of the Code) and, otherwise, the term "*Fair Market Value*" means the acquisition price in a bona fide arm's length transaction (as referenced above) if (i) the investment is a certificate of deposit that is acquired in accordance with applicable regulations under the Code, (ii) the investment is an agreement with specifically negotiated withdrawal or reinvestment provisions and a specifically negotiated interest rate (for example, a guaranteed investment contract, a forward supply contract or other investment agreement) that is acquired in accordance with applicable regulations under the Code, (iii) the investment is a United States Treasury Security-State and Local Government Series that is acquired in accordance with applicable regulations of the United States Bureau of Public Debt, or (iv) the investment is the Local Agency Investment Fund of the State of California but only if at all times during which the investment is held its yield is reasonably expected to be equal to or greater than the yield on a reasonably comparable direct obligation of the United States. The Trustee shall have no duty in connection with the determination of Fair Market Value other than to follow the investment directions of a District Representative in any written directions of a District Representative.

"*Favorable Opinion of Special Counsel*" means an opinion acceptable to the District and the Certificate Insurer, addressed to the District, the Certificate Insurer and the Trustee, to the effect that as of such date that the action proposed to be taken is authorized or permitted by the Trust Agreement and will not result in the inclusion of interest on the Certificates in gross income for federal income tax purposes.

"*Federal Securities*" means direct general obligations of (including obligations issued or held in book entry form on the books of the Department of the Treasury) the United States of America, or obligations the payment of principal of and interest on which are guaranteed by, the United States of America.

"*Hazardous Substances*" means any substance, pollutant, waste or contaminant now or hereafter included in such (or any similar) term under any federal, state or local statute, code, ordinance or regulation now existing or hereafter enacted or amended.

"*Independent Counsel*" means an attorney duly admitted to the practice of law before the highest court of the state in which such attorney maintains an office and who is not an employee of the District, the Trustee or the Corporation and who is acceptable to the Certificate Insurer.

"*Information Services*" means any of the following services which have been designated in a certificate of the District delivered to the Trustee: Financial Information, Inc.'s "Daily Called Bond Service", 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services "Called Bond Service," 28th Floor, 55 Broad Street, New York, New York 10004; Moody's "Municipal and Government," 8th Floor, 99 Church Street, New York, New York 10007, Attention: Municipal News Report; and Standard & Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, NY 10004; or such other services providing information with respect to called Certificates as the District may designate in a certificate of the District delivered to the Trustee and the Certificate Insurer.

"*Insurance and Condemnation Fund*" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"*Interest Payment Date*" means each July 1 and December 1, commencing on July 1, 2008, so long as any Certificates are outstanding.

"*Lease Agreement*" means the Lease Agreement dated as of March 1, 2004 by and between the Corporation as lessor and the District as lessee, as amended by that certain Amendment to Lease Agreement dated as of June 1, 2008, and any other authorized and executed amendments thereto.

"*Lease Payment Date*" means any date occurring no more than three (3) Business Days prior to any Interest Payment Date or principal payment date.

"*Lease Payment Fund*" means the fund by that name established and held by the Trustee pursuant to the Trust Agreement.

"*Lease Payment*" or "*Lease Payments*" means all payments required to be paid by the District pursuant to the Lease Agreement, including any prepayment thereof pursuant to Article X of the Lease Agreement.

"*Lease Payment Schedule*" means the schedule of Lease Payments payable to the Corporation by the District pursuant to the Lease Agreement.

"*Letter of Representations*" means the DTC Letter of Representations.

"*Maturity*" means March 1, 2034 or such earlier date when all of the Certificates are fully satisfied.

"*Maximum Interest Rate*" means, on any date of determination, the lesser of (i) the Reference Rate multiplied by the Applicable Percentage, (ii) 16% or (iii) the maximum rate permitted by applicable laws of the State for obligations of public agencies such as the District.

"*Moody's*" means Moody's Investors Service, its successors and assigns, and, if such corporation shall for any reason no longer perform the function of a securities rating agency, "*Moody's*" shall be deemed to refer to any other nationally recognized rating agency designated by the District and acceptable to the Certificate Insurer.

"*Net Proceeds*" means any insurance proceeds or condemnation award, paid with respect to the Facility, to the extent remaining after payment therefrom of all expenses incurred in the collection thereof.

"*Opinion of Counsel*" means any opinion of Counsel acceptable to the party relying upon such opinion.

"*Outstanding*," when used with reference to the Certificates and as of any particular date, means all Certificates theretofore delivered except: (a) any Certificate canceled by the Trustee or surrendered for cancellation at or before said date, (b) Certificates for the payment or prepayment of which funds or eligible securities in the necessary amount, including accrued interest thereon, shall have theretofore been deposited with the Trustee (whether upon or prior to the maturity or prepayment date of such Certificates), provided that, if such Certificates are to be prepaid prior to maturity, notice shall have been given as provided in the Trust Agreement or provision satisfactory to the Trustee shall have been made for the giving of such notice, and (c) any Certificate in lieu of, in substitution for, or in exchange for which another Certificate shall have been delivered pursuant to the Trust Agreement.

"*Owner*," "*Owners*," "*Certificate Owner*," "*Certificateholder*" or "*Holder*" when used with respect to a Certificate means the person in whose name the ownership of such Certificate shall be registered.

"*Payment Date*" means any Interest Payment Date or Principal Payment Date.

"*Permitted Encumbrances*" means, as of any particular time:

(1) liens for general ad valorem taxes and assessments, if any, not then delinquent, or which the relevant taxing authority may permit to remain unpaid without penalty;

(2) the Assignment Agreement;

(3) the Lease Agreement;

(4) easements, rights of way, mineral rights, drilling rights and other right, reservations, covenants, conditions or restrictions which exist of record as of the Closing Date;

(5) 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 Agreement and to which the District and the Certificate Insurer consent in writing;

(6) the Site Lease;

(7) leases made in the ordinary course of business; and

(8) any other lien or encumbrance incurred in the ordinary course of business provided the same does not materially impair the value of the Facility.

"*Permitted Investments*" means any of the following:

1. Cash (insured at all times by the Federal Deposit Insurance Corporation),
2. Obligations of, or obligations guaranteed as to principal and interest by, the U.S. or any agency or instrumentality thereof, when such obligations are backed by the full faith and credit of the U.S. including:

- U.S. treasury obligations
- All direct or fully guaranteed obligations
- Farmers Home Administration
- General Services Administration
- Guaranteed Title XI financing
- Government National Mortgage Association (GNMA)
- State and Local Government Series

Any security used for defeasance must provide for the timely payment of principal and interest and cannot be callable or prepayable prior to maturity or earlier redemption of the rated debt (excluding securities that do not have a fixed par value and/or whose terms do not promise a fixed dollar amount at maturity or call date).

Certificate Insurer will allow the following Obligations to be used as Permitted Investments for all purposes other than defeasance investments in refunding escrow accounts.

1. Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America, including:
 - Export-Import Bank
 - Rural Economic Community Development Administration
 - U.S. Maritime Administration
 - Small Business Administration
 - U.S. Department of Housing & Urban Development (PHAs)
 - Federal Housing Administration
 - Federal Financing Bank;
2. Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America:
 - Senior debt obligations issued by the Federal National Mortgage Association (FNMA) or Federal Home Loan Mortgage Corporation (FHLMC)
 - Obligations of the Resolution Funding Corporation (REFCORP)
 - Senior debt obligations of the Federal Home Loan Bank System
 - Senior debt obligations of other Government Sponsored Agencies approved by Certificate Insurer;
3. U.S. dollar denominated deposit accounts, federal funds and bankers' acceptances with domestic commercial banks which have a rating on their short term certificates of deposit on the date of purchase of "P-1" by Moody's and "A-1" or "A-1+" by S&P and maturing not more than 360 calendar days after the date of purchase. (Ratings on holding companies are not considered as the rating of the bank);
4. Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase;
5. Investments in a money market fund rated "AAAm" or "AAAm-G" or better by S&P;
6. Pre-refunded Municipal Obligations defined as follows: any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior

to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice; and

- (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category of Moody's or S&P or any successors thereto; or
 - (B) (i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph A(2) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate;
- 7. Municipal Obligations rated "Aaa/AAA" or general obligations of States with a rating of "A2/A" or higher by both Moody's and S&P;
 - 8. Investment Agreements approved in writing by Certificate Insurer (supported by appropriate opinions of counsel); and
 - 9. other forms of investments (including repurchase agreements) approved in writing by Certificate Insurer.

The value of the above investments shall be determined as follows:

- a) For the purpose of determining the amount in any fund, all Permitted Investments credited to such fund shall be valued at fair market value. The Trustee shall determine the fair market value based on accepted industry standards and from accepted industry providers. Accepted industry providers shall include but are not limited to pricing services provided by Financial Times Interactive Data Corporation, Merrill Lynch, Citigroup Global Markets Inc., Bear Stearns, or Lehman Brothers;
- b) As to certificates of deposit and bankers' acceptances: the face amount thereof, plus, accrued interest thereon; and
- c) As to any investment not specified above: the value thereof established by prior agreement among the Issuer, the Trustee, and Certificate Insurer.

"*Person*" means any individual, association, unincorporated organization, corporation, partnership, joint venture, business trust or a government or an agency or a political subdivision thereof, or any other entity (including any agency or political subdivision thereof).

"*Premises*" means the Site and the Existing Improvements.

"*Prepayment Date*" means the date of prepayment of the Certificates as set forth in Section 4.01 of the Trust Agreement.

"*Principal Amount*," when used with respect to Lease Payments, means the total principal component of Lease Payments then unpaid.

"*Principal Office*" means, (a) with respect to the Trustee, the main or principal corporate trust office of the Trustee located at 300 South Grand Avenue, 41st Floor, Los Angeles, California 90071, Attn: Trust and Securities Services, or as otherwise designated by the Trustee, and with regard to the Trustee, the presentation of Certificates for payment or registration or transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

"*Principal Payment Date*" means any date on which the principal, with respect to the Certificate is due and payable of each year, commencing on the dates as provided in the Lease Agreement.

"*Proceeds*," when used with respect to the Certificates, means the face amount of the Certificates, plus accrued interest and premium, if any, less original issue discount if any.

"*Project*" means those capital improvements, more particularly described in Exhibit C of the Trust Agreement, as the same may be amended from time to time.

"*Purchase Date*" means the date of purchase for any Certificate tendered pursuant to the Trust Agreement.

"*Purchase Fund*" means the fund held by the Trustee pursuant to the Trust Agreement.

"*Purchase Price*" means as to Purchased Certificates, the principal amount thereof plus accrued interest to, but not including, the Purchase Date; *provided, however*, that if the Purchase Date for any Purchased Certificates is an Interest Payment Date, the Purchase Price thereof shall be the principal amount thereof, and interest with respect to such Certificates shall be paid to the Holder of such Certificates pursuant to the Trust Agreement.

"*Rating Agency*" means Moody's, if Moody's is then rating the Certificates, and means S&P, if S&P is then rating the Certificates, and such other rating agency as shall then maintain a rating on the Certificates.

"*Rating Category*" means any generic rating category of Moody's or S&P, without regard to any refinement of such category by plus or minus sign or by numerical or other qualifying designation.

"*Record Date*" means, with respect to any Interest Payment Date with respect to the Certificates, the fifteenth (15th) day of the calendar month preceding an Interest Payment Date. With respect to any payment of defaulted interest a special record date shall be established in accordance with the provisions of the Trust Agreement.

"*Registration Books*" means the records maintained by the Trustee pursuant to the Trust Agreement for registration and transfer of ownership of the Certificates.

"*Regulations*" means temporary and permanent regulations promulgated under the Code.

"*Rental Period*" means the Term of the Lease Agreement commencing as of March 1, 2004 and ending on March 1, 2034 except as otherwise provided in the Lease Agreement.

"*S&P*" means Standard & Poor's Ratings Service, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and, if such corporation shall for any reason no longer perform the function of a securities rating agency, "*S&P*" shall be deemed to refer to any other nationally recognized rating agency designated by the District with the approval of the Certificate Insurer.

"*Securities Depository(ies)*" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, NY, 10041-0099, Attn. Call Notification Department, Fax (212) 855-7232 or such other addresses and/or such other securities depositories as the District may designate in a certificate of the District delivered to the Trustee and the Certificate Insurer.

"*Site*" means that certain real property more particularly described in the Site Lease and the Lease Agreement.

"*Site Lease*" means the Site Lease, dated as of the date thereof, by and between the District, as lessor, and the Corporation, as lessee, together with any duly authorized and executed amendments thereto.

"*Site Lease Payment*" means the amount which is payable by the Corporation to the District on the Closing Date as advance rental for the Site and Existing Improvements pursuant to the Site Lease.

"*Special Counsel*" means Greenberg Traurig, LLP, or any other attorney or firm of attorneys appointed by and acceptable to the District and the Certificate Insurer of nationally-recognized experience in the issuance of obligations the interest in which is excludable from gross income for federal income tax purposes under the Code.

"*State*" means the State of California.

"*Term*" or "*Term of the Lease*" means the time during which the Lease Agreement is in effect, as provided in the Lease Agreement.

"*Transaction Documents*" means the Agency Agreement, the Assignment Agreement, the Lease Agreement, the Certificate Insurance Policy, the Site Lease, the Trust Agreement and such other relevant operative document and instruments necessary to delivery of the Certificates.

"*Trust Agreement*" means the Amended and Restated Trust Agreement dated as of June 1, 2008, together with any amendments or supplements hereto permitted to be made under the Amended and Restated Trust Agreement.

"*Trustee*" means Deutsche Bank National Trust Company, its affiliates, a State of California national banking association duly organized and existing under the laws of the United States of America, its successors or assigns under the provisions of the Trust Agreement designee or assignee.

"*Undelivered Certificates*" means Certificates that were not delivered pursuant to a tender notice as set forth in the Trust Agreement.

"*Underwriter*" means the first purchaser of the Certificates upon their delivery by the Trustee on the Closing Date; initially Nollenberger Capital Partners, Inc.

"*Written Request of the District*" means an instrument in writing signed by the District Representative.

LEASE AGREEMENT

The following is a summary of certain provisions of the Lease Agreement. This summary does not purport to be complete or definitive and reference is made to the Lease Agreement for the complete terms thereof.

The Lease Agreement is entered into between the Corporation, as lessor, and the District, as lessee.

Term

The term of the Lease Agreement commenced on March 11, 2004, the date of recordation of the Lease Agreement and will end on March 31, 2034. If on March 31, 2034, the Trust Agreement is not discharged by its terms, or if the Lease Payments payable thereunder are abated at anytime for any reason, then the term of the Lease Agreement will be extended until there has been deposited with the Trustee an amount sufficient to pay all obligations due under the Lease Agreement, but in no event will the term of the Lease Agreement extend beyond March 1, 2039. If, before March 1, 2034 the Trust Agreement is discharged by its terms, the Term of the Lease Agreement will thereupon, simultaneously end.

Deposit of Moneys

On the Closing Date, the Corporation shall cause to be deposited with the Trustee the proceeds of sale of the Certificates into the Conversion Fund and the Delivery Costs Fund as provided in the Trust Agreement. After the Conversion to the Fixed Rate, the Capitalized Interest Account will be funded as provided in the Trust Agreement and such other amounts should be deposited in the Certificate Reserve Fund as set forth under the Trust Agreement.

Lease Payments; Abatement

The District is required under the Lease Agreement to make Lease Payments on each Lease Payment Date for use and possession of the Facility (as defined in the Lease Agreement). The obligation of the District to make Lease Payments (other than to the extent that funds to make Lease Payments are available in the Lease Payment Fund and the Insurance and Condemnation Fund) may be abated in whole or in part if the District does not have full use and possession of the Facility.

The Lease Payments for the Facility for each Rental Period shall constitute the total rental for the Facility for each such Rental Period and shall be paid by the District in each Rental Period for and in consideration of the right of the use and occupancy, and the continued quiet use and enjoyment, of the Facility during each Rental Period. The parties have agreed and determined that the total Lease Payments for the Facility do not exceed the fair rental value of the Facility. In making such determination, consideration has been given to the obligations of the parties under the Lease Agreement, the uses and purposes which may be served by the Facility, the total amounts which have been expended on the Facility, the value of the Site and the Facility and the benefits therefrom which will accrue to the District, its residents and the general public.

Lease Payments shall be payable from any source of available funds of the District. The District has covenanted in the Lease Agreement to take such action as may be necessary to include (from all lawfully available money of the District) all Lease Payments and other payments due under the Lease Agreement as a separate line item in each of its annual budgets during the term of the Lease Agreement and to make the necessary annual appropriations for the actual amount of all such Lease Payments due and any other payments due under the Lease Agreement at an assumed interest rate equal to twelve percent (12%) per annum. The covenants of the District shall be deemed to be, and shall be, duties

imposed by law, and it shall be the duty of each and every public official of the 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 such covenants.

Lease Payments will be abated during any period in which, by reason of damage, destruction, non-completion or other event (other than by eminent domain which is provided for under the Lease Agreement), there is substantial interference with the use and occupancy by the District of the Facility or any portion thereof (other than any excluded portions of the Facility described in the Lease) but not any specific portions of the Facility as shall be agreed upon by the District and the Corporation, approved by the Certificate Insurer such that the resulting Lease Payments represent fair consideration for the use and occupancy of the portions of the Facility not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the District. The parties agree that the amounts of the Lease Payments under such circumstances shall not be less than the amounts of the unpaid Lease Payments as are then set forth herein, unless such unpaid amounts are determined to be greater than the fair rental value of the portions of the Facility not damaged or destroyed based upon the written opinion delivered to the Certificate Insurer and the Trustee of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, in which event the Lease Payments shall be abated such that they represent said fair rental value. Such abatement shall continue for the period commencing with such damage, destruction, noncompletion or other event and ending with the substantial completion of the work of repair or reconstruction or of completion of the Facility or of the regained availability of use and occupancy. In the event of any such damage, destruction, non-completion or non-availability, this Lease Agreement shall continue in full force and effect and the District waives any right to terminate this Lease Agreement by virtue of any such damage, destruction, non-completion or unavailability.

Notwithstanding the foregoing, there shall be no abatement of Lease Payments under the Lease Agreement by reason of damage, destruction, non-completion or unavailability of all or a portion of the Facility to the extent that (i) the fair rental value of the portions of the Facility not damaged, destroyed, incomplete or otherwise unavailable for use and occupancy by the District, based upon the written opinion delivered to the Certificate Insurer and the Trustee of an MAI appraiser with expertise in valuing such properties or other appropriate method of valuation, is equal to or greater than the unpaid principal component of the Lease Payments; or (ii) (A) the proceeds of rental interruption insurance, or (B) amounts in the Certificate Reserve Fund and/or the Insurance and Condemnation Fund and/or the Lease Payment Fund are available to pay Lease Payments which would otherwise be abated under the Lease Agreement, it being hereby declared that such proceeds and amounts constitute special funds for the payment of the Lease Payments.

Additional Payments

In addition to the Lease Payments, the District shall pay when due all costs and expenses incurred by the District and the Corporation in complying with the provisions of the Trust Agreement, the Trustee, the Certificate Insurer, or otherwise arising from the financing of the Facility, including without limitation all Delivery Costs (to the extent not paid from amounts on deposit in the Delivery Costs Fund), compensation, reimbursable expenses and fees due to the Trustee and the Certificate Insurer, all costs and expenses of auditors, engineers and accountants and any amounts required to be rebated to the federal government, which payments shall not be subject to abatement.

Property Insurance; Eminent Domain

The District will maintain or cause to be maintained throughout the term of the Lease Agreement, with respect to the Facility the following insurance against risk of physical damage.

Public Liability and Property Damage. The District shall maintain or cause to be maintained, throughout the Term of the Lease Agreement, insurance policies, including a standard comprehensive

general insurance policy or policies in protection of the District, the Corporation, the Trustee and the Certificate Insurer, including their respective members, officers, agents and employees. Said policy or policies shall provide for indemnification of said parties against direct or consequential loss or liability for damages for bodily and personal injury, death or property damage occasioned by reason of the operation of the property. Said policy or policies shall provide coverage in the minimum liability limits of \$1,000,000 for personal injury or death of each person and \$3,000,000 for personal injury or deaths of two or more persons in each accident or event, and in a minimum amount of \$500,000 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 \$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 by the District, and may be maintained in the form of insurance maintained through a joint exercise of powers authority created for such purpose or in the form of self-insurance by the District with the written consent of the Certificate Insurer. The Net Proceeds of such liability insurance shall be applied toward extinguishment or satisfaction of the liability with respect to which the insurance proceeds shall have been paid.

Fire and Extended Coverage. The District shall procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against loss or damage to any structures constituting part of the Facility by fire and lightning, with extended coverage and vandalism and malicious mischief insurance. Said extended coverage insurance shall, as nearly as practicable, cover loss or damage by explosion, windstorm, not, aircraft, vehicle damage, smoke and such other hazards as are normally covered by such insurance. Such insurance shall be in an amount equal to the greater of one hundred percent (100%) of the replacement cost of the Facility and the amount available to be founded by the Certificate Insurer under the Insurance Policy exceed \$100,000 for any one loss. Such insurance may be maintained as part of or in conjunction with any other fire and extended coverage insurance carried by the District and may be maintained in whole or in part in the form of insurance maintained through a joint exercise of powers authority created for such purpose or with the written consent of the Certificate Insurer in the form of self-insurance by the District.

The District agrees to procure and maintain, or cause to be procured and maintained, throughout the Term of the Lease Agreement, insurance against earthquake loss or damage to the Facility in such amounts as an independent insurance consultant shall annually determine is necessary to protect the District for such risk. Such insurance may be subject to a deductible clause of not to exceed ten percent (10%) for any one loss. Such insurance may be maintained as part of or in conjunction with any other insurance coverage carried by the District. If the District cannot purchase such insurance on the open market from reputable insurers at reasonable cost, the District agrees to self-insure for such coverage.

Rental Interruption. The District shall procure and maintain through the Term of the Lease Agreement, for the benefit of the Corporation, rental interruption insurance to cover loss, total or partial of the rental income to the Corporation as a result of the District's inability to use and occupy all or any part of the Facility in an amount at least equal the times maximum amount of Lease Payments in any two year period assuming the Maximum Interest Rate. The Net Proceeds of such insurance shall be paid to the Trustee and deposited in the Lease Payment Fund, and shall be credited towards the payment of the Lease Payments in the order in which such Lease Payments would otherwise come due and be payable.

Title Insurance. The District shall provide, at its own expense, on the Closing Date, a CLTA title insurance policy covering, and in the amount of not less than the principal component (but not maturity amount) of the Certificates, insuring the District's leasehold estate in the Site, subject only to Permitted Encumbrances.

Insurance Net Proceeds

Each policy of insurance required by the Lease Agreement shall unless a form of self-insurance is approved by the Certificate Insurer, provide that all proceeds thereunder shall be payable to the Trustee as and to the extent required under the Lease Agreement. Notice of cancellation of any such policy shall be filed with the Certificate Insurer (so long as the Certificate Insurance Policy is in effect and the Certificate Insurer is honoring draws thereunder) and the Trustee and each policy shall be in effect for at least one year and require thirty (30) days notice for cancellation. The District shall pay or cause to be paid when due the premiums for all insurance policies required by the Lease Agreement. The Trustee shall not be responsible for the sufficiency of any insurance required under the Lease Agreement, including any forms of self-insurance, the qualifications of any company issuing same, the adjustment of any losses thereunder, or any other matters relating thereto, and shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss. The District shall cause to be delivered annually on or before each January to the Trustee evidence of insurance in force required by the Lease Agreement. The District shall have the adequacy of any insurance reserves maintained by the District or by a joint exercise of powers authority, if applicable, for purposes of the insurance required by the Lease Agreement reviewed at least annually, on or before each January, by an independent insurance consultant and shall maintain reserves in accordance with the recommendations of such consultant to the extent moneys are available for such purpose and not otherwise appropriated. The results of such review shall be filed with the Certificate Insurer and the Trustee.

The Lease Agreement provides the Net Proceeds of insurance against accident to or destruction of any part of the Property collected by the District in the event of any such accident or destruction shall be paid to the Trustee and deposited by the Trustee upon receipt thereof in the Insurance and Condemnation Fund. If the District determines and notifies the Trustee in writing of its determination, within ninety (90) days following the date of such deposit, that the replacement, repair, restoration, modification or improvement of the Facility is not economically feasible or in the best interest of the District, then such Net Proceeds shall be promptly transferred by the Trustee to the Lease Payment Fund and applied to the prepayment of Lease Payments and to the corresponding prepayment of Certificates (as described under the heading "PREPAYMENT PROVISIONS"). In the event of damage or destruction of the Facility in part, such Net Proceeds may be transferred to the Lease Payment Fund and applied to the prepayment of Lease Payments only if the resulting Lease Payments equal or less than the remaining portions of the Facility.

All Net Proceeds deposited in the Insurance and Condemnation Fund and not so transferred to the Lease Payment Fund shall be applied by the District to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Facility. Net Proceeds deposited in the Insurance and Condemnation Fund shall be applied for such purpose by the District, upon submission to the Trustee of requisitions signed by a District Representative. Notwithstanding the foregoing, if the period of replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Facility will exceed the period of time for which rental interruption insurance will be available for the payment of Lease Payments, such Net Proceeds shall not be applied for such purposes but shall be transferred to the Lease Payment Fund and applied to the prepayment of Lease Payments unless the District shall elect to deposit moneys to the Lease Payment Fund to pay Lease Payments in excess of the amount of rental interruption insurance for the full period of such replacement, repair, restoration, modification or improvement. The District declares that, since the Facility is essential to the operations of the District, it will use its best efforts to so deposit moneys to the Lease Payment Fund to pay Lease Payments in excess of the amount of rental interruption insurance for the full period of such replacement, repair, restoration, modification or improvement so as to accomplish such replacement, repair, restoration, modification or improvement.

The Lease Agreement provides that, if all or any part of the Facility that render the remainder not useable for public purposes of the District shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Term of the Lease shall end and

the Net Proceeds therefrom shall be deposited with the Trustee in the Insurance and Condemnation Fund and the applied as set forth under the Trust Agreement.

If the District has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Facility or the ability of the District to meet any of its obligations with respect to the Facility under the Lease Agreement, and (ii) such proceeds are not needed for repair or rehabilitation of the Facility, the District shall so certify to the Trustee and the Trustee, at the written request of a District Representative, shall transfer such proceeds to the Lease Payment Fund to be credited towards the prepayment of the Lease Payments and applied to the prepayment of Certificates (as described under the heading "PREPAYMENT PROVISIONS").

If the District has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Facility or the ability of the District to meet any of its obligations with respect to the Facility under the Lease Agreement, and (ii) such proceeds are needed for repair, rehabilitation or replacement of the Facility, the District shall so certify to the Trustee and the Trustee, at the District's written request, shall pay to the District, or to its order, from said proceeds such amounts as the District may expend for such repair or rehabilitation, upon the filing with the Trustee of requisitions of a District Representative. If (i) less than all of the Facility shall have been taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the District has given written notice to the Trustee of its determination that such eminent domain proceedings have materially affected the operation of the Facility or the ability of the District to meet any of its obligations with respect to the Facility under the Lease Agreement or (ii) all of the Facility shall have been taken in such eminent domain proceedings, then the Trustee shall transfer such proceeds to the Lease Payment Fund to be credited toward the prepayment of the Lease Payments.

Tax Covenants

Private Activity Bond Limitation. The District shall assure that the proceeds of the Certificates are not so used as to cause the Certificates or the Lease Agreement to satisfy the private business tests of Section 141(b) of the Code or the private loan financing test of Section 141(c) of the Code.

Federal Guarantee Prohibition. The District shall not take any action or permit or suffer any action to be taken if the result of the same would be to cause any of the Certificates or the Lease Agreement to be "federally guaranteed" within the meaning of Section 149(b) of the Code.

Rebate Requirement. The District shall take or cause the taking of any and all actions necessary to assure compliance with Section 148(f) of the Code, relating to the rebate of excess investment earnings, if any, to the federal government, to the extent that such section is applicable to the Certificates or the Lease Agreement.

No Arbitrage. The District shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Certificates which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the Closing Date would have caused the Certificates or the Lease Agreement to be "arbitrage bonds" within the meaning of Section 148 of the Code.

Maintenance of Tax Exemption. The District shall take or cause the taking of all actions necessary to assure the exclusion of interest with respect to the Certificates from the gross income of the Owners of the Certificates to the same extent as such interest is permitted to be excluded from gross income under the Code as in effect on the Closing Date.

Assignment and Subleasing

The Lease Agreement may not be assigned by the District. The District may sublease the Facility or any portion thereof, but only with the written consent of the Corporation and the Certificate Insurer, subject to all of the following conditions: (i) the Lease Agreement and the obligation of the District to make Lease Payments under the Lease Agreement shall remain obligations of the District; (ii) the District shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Corporation, the Certificate Insurer (so long as the Certificate Insurance Policy is in effect) and the Trustee a true and complete copy of such sublease; (iii) no such sublease by the District shall cause the Facility to be used for a purpose other than as may be authorized under the provisions of the constitution and laws of the State; and (iv) the District shall furnish the Corporation, the Certificate Insurer (so long as the Certificate Insurance Policy is in effect) and the Trustee with a written opinion of Special Counsel stating that such sublease does not cause the interest components of the Lease Payments to become subject to federal income taxes.

Amendment of Lease Agreement

Substitution of Site or Facility. The District shall have the option at any time and from time to time during the Term of the Lease Agreement to substitute other land (a "Substitute Site") and/or a substitute facility (a "Substitute Facility") for the Site (the "Former Site"), or a portion thereof, and/or the Facility (the "Former Facility"), or a portion thereof, provided that the District shall satisfy all of the following requirements which are conditions precedent to such substitution: (i) the District shall file with the Corporation, the Certificate Insurer (so long as the Certificate Insurance Policy is in effect) and the Trustee an amendment to the Site Lease which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site; (ii) the District shall file with the Corporation, the Certificate Insurer and the Trustee an amendment to the Lease Agreement which adds thereto a description of such Substitute Site and deletes therefrom the description of the Former Site; (iii) the District shall file with the Corporation, the Certificate Insurer (so long as the Certificate Insurance Policy is in effect) and the Trustee an amendment to the Site Lease which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility; (iv) the District shall file with the Corporation, the Certificate Insurer and the Trustee an amendment to the Lease Agreement which adds thereto a description of such Substitute Facility and deletes therefrom the description of the Former Facility; (v) the District shall certify in writing to the Corporation, the Certificate Insurer (so long as the Letter of Credit is in effect and the Certificate Insurer is honoring draws thereunder) and the Trustee that such Substitute Site and/or Substitute Facility serve the purposes of the District, constitutes property that is unencumbered, subject to Permitted Encumbrances, and constitutes property which the District is permitted to lease under the laws of the State; (vi) the District delivers to the Trustee, the Certificate Insurer and the Corporation evidence that the Substitute Site and/or Substitute Facility are of equal or greater value than the Former Site and Former Facility; (vii) the Substitute Site and/or Substitute Facility shall not cause the District to violate any of its covenants, representations and warranties made in the Lease Agreement and in the Trust Agreement; (viii) the District shall obtain an amendment to the title insurance policy required pursuant to the Lease Agreement which adds thereto a description of the Substitute Site and deletes therefrom the description of the Former Site; (ix) the District shall certify that the Substitute Site and/or the Substitute Facility is of the same or greater essentiality to the District as was the Former Site and/or the Former Facility; (x) the District shall obtain the prior written consent of the Certificate Insurer as long as the Insurance Policy is in effect and; (xi) the District shall furnish the Certificate Insurer and the Trustee written opinions of counsel stating such substitutions does not cause the interest components of the lease agreements to become subject to federal income taxes or state personal income taxes.

Release of Site. The District shall have the option at any time and from time to time during the Term of the Lease Agreement to release any portion of the Site, provided that the District shall satisfy all of the following requirements which are declared to be conditions precedent to such release: (i) the

District shall file with the Corporation, the Certificate Insurer (so long as the Certificate Insurance Policy is in effect and the Trustee an amendment to the Site Lease which describes the Site, as revised by such release; (ii) the District shall file with the Corporation, the Certificate Insurer (so long as the Insurance Policy is in effect) and the Trustee an amendment to the Lease Agreement which describes the Site, as revised by such release; (iii) the District delivers to the Trustee, the Certificate Insurer (so long as the Certificate Insurance Policy is in effect) and the Corporation evidence that the Site, as revised by such release, is of a value at least equal to the value of the Site as of the Closing Date and that the release will not cause the Lease Payments to be less than the amount necessary to pay principal and interest due with respect to the Certificates; (iv) the District shall provide notice of such release to any rating agency then rating the Certificates; (v) such release shall not cause the District to violate any of its covenants, representations and warranties made in the Lease Agreement and in the Trust Agreement; and (vi) the District shall have received the prior written consent of the Certificate Insurer (so long as the Certificate Insurance Policy is in effect).

General. Without the prior written consent of the Trustee and the Certificate Insurer, neither the District nor the Corporation will alter, modify or cancel, or agree or consent to alter, modify or cancel the Lease Agreement except in connection with a substitution or release permitted by the Lease Agreement and as may be permitted by the Trust Agreement.

Default and Remedies

The following constitute "Events of Default" under the Lease Agreement:

(a) Failure by the District to pay any Lease Payment or Additional Payment required to be paid under the Lease Agreement at the time specified therein.

(b) Failure by the District to observe and perform any covenant, condition or agreement on its part to be observed or performed other than as referred to in clause (a) above, for a period of thirty (30) days after written notice specifying such failure and requesting that it be remedied has been given to the District by the Corporation, the Trustee, the Certificate Insurer or the Owners of not less than five percent (5%) in aggregate principal amount of Certificates then Outstanding (provided that such request by Owners shall be effective only upon receipt of the written concurrence of the Certificate Insurer or if the Letter of Credit is no longer in effect); provided however, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation, the Trustee, the Certificate Insurer (so long as the Certificate Insurance Policy is in effect) and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected.

(c) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

(d) The occurrence of an Event of Default under, and as defined in, the agreement between the Certificate Insurer and the District relating to the Certificate Insurance Policy, and notice to the District, the Corporation and the Trustee of such occurrence.

Whenever any Event of Default shall have happened and be continuing, it shall be lawful for the Corporation to exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; provided, however, that notwithstanding anything in the Lease Agreement or in the Trust Agreement to the contrary, there shall 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. The Corporation may (i) protect and enforce the Lease Agreement by such judicial proceedings as the Corporation or its assignee shall deem most effectual, either by suit in equity or by action at law, whether for the specific performance of any covenant or agreement contained in the Lease Agreement, or in aid of the exercise of any power granted in the Lease Agreement, or to enforce any other legal or equitable right vested in the Corporation or its assignee by the Lease Agreement or by law; (ii) take possession of the Facility and exclude the District from using it until the default is cured, holding the District liable for the Lease Payments and other amounts payable by the District prior to such taking of the Facility under and pursuant to the Lease Agreement and the curing of such default; or (iii) take whatever action at law or in equity may appear necessary or desirable to enforce its rights as the owner of the Facility, including termination of the Lease Agreement and the repossession and lease of the Facility.

Security Deposit

Notwithstanding any other provision of the Lease Agreement, upon payment of all amounts due and owing the Certificate Insurer under the Lease Agreement and under the agreement between the Certificate Insurer and the District relating to the Certificate Insurance Policy, the District may, on any date occurring after the Conversion Date, secure the payment of all or a portion of the Lease Payments remaining due by a deposit with an escrow holder under an escrow deposit and trust agreement, of: (a) in the case of a security deposit relating to all Lease Payments, either (i) an amount which, together with amounts on deposit in the Lease Payment Fund and the Insurance and Condemnation Fund, is sufficient to pay all unpaid Lease Payments, including the principal and interest components thereof, or (ii) Defeasance Obligations derived from Available Moneys in such amount as will, in the opinion of an independent certified public accountant, together with interest to accrue thereon and, if required, all or a portion of moneys or Defeasance Obligations then on deposit and interest earnings thereon in the Lease Payment Fund and the Insurance and Condemnation Fund, be fully sufficient to pay or repay all unpaid Lease Payments on or before their respective Payment Dates; or (b) in the case of a security deposit relating to a portion of the Lease Payments, a certificate executed by a District Representative designating the portion of the Lease Payments to which the deposit pertains, and either (i) an amount derived from Seasoned Funds which is sufficient to pay the portion of the Lease Payments designated in such District Representative's certificate, including the principal and interest components thereof, or (ii) Defeasance Obligations derived from Available Moneys in such amount as will, together with interest to be received thereon, if any, in the opinion of an independent certified public accountant, be fully sufficient to pay the portion of the Lease Payments designated in the aforesaid District Representative's certificate.

In the event of a deposit as to all Lease Payments, all obligations of the District under the Lease Agreement shall cease and terminate, excepting only the obligation of the District to make, or cause to be made, all payments from the deposit made by the District. Said deposit and interest earnings thereon shall be deemed to be and shall constitute a special fund for the payments and said obligation shall thereafter be deemed to be and shall constitute the installment purchase obligation of the District for the Facility. Upon said deposit, the Corporation will execute or cause to be executed any and all documents as may be necessary to confirm title to the Facility in accordance with the provisions of the Lease Agreement. In addition, the Corporation appoints the District as its agent to prepare, execute and file or record, in appropriate offices, such documents as may be necessary to place record title to the Facility in the District.

Other Provisions

The District has the right, with the prior comment of the Certificate Insurer, to remodel the Facility or to make modifications and additions to it, provided such modifications and additions do not damage the Facility, substantially alter its nature, cause it to be used for unauthorized purposes or reduce its value to a value less than that existing prior to such modifications and additions. All such additions and modifications become part of the Facility and subject to the provisions of the Lease Agreement. The

District may add or substitute items of equipment or improvements to or for those items of equipment or improvements initially leased from the Corporation if, among other requirements set forth in the Lease Agreement, such items do not require an expenditure of amounts in excess of amounts appropriated for such purpose by the District, and have a useful life and are of a value equal to or greater than the items being leased.

The District is responsible for the improvement, repair, and maintenance of the Facility and shall pay or arrange for payment of the cost of repair and replacement resulting from ordinary wear and tear.

The District shall pay any taxes, assessments and other governmental and utility charges relating to the Facility as due; provided, however, that the Lease Agreement permits any such taxes, assessments and charges to remain unpaid if the District in good faith contests and diligently pursues to conclusion such taxes, assessments or charges and provides the Corporation and the Trustee with an opinion of independent Counsel to the effect that such nonpayment will not materially endanger the Corporation's interest in the Facility or subject any item of the Facility to loss or forfeiture.

The Corporation makes no warranty as to the value, design, condition, merchantability or fitness for the use by the District of the Facility or any part thereof. The District has all rights with respect to the warranties of the contractors regarding the Facility, and the right to enforce such warranties against the contractors.

The Corporation has the right at all reasonable times to examine and inspect the Facility and to have reasonable access to the Facility to cause its proper maintenance in the event of failure by the District to perform its obligations.

Termination

As described above, the Lease Agreement terminates (i) upon the payment or prepayment by the District of all Lease Payments due during the term of the Lease Agreement, (ii) upon the occurrence of an Event of Default by the District and the Corporation's or its assignee's election to terminate the Lease Agreement, or (iii) upon taking the Facility in whole pursuant to eminent domain proceedings or in part to such extent that the remaining portion of the Facility is no longer useful for the purposes originally intended.

ASSIGNMENT AGREEMENT

The following is a summary of certain provisions of the Assignment Agreement. This summary does not purport to be complete or definitive and reference is made to the Assignment Agreement for the complete terms thereof.

The Assignment Agreement is entered into between the Corporation and the Trustee, pursuant to which the Corporation assigns and transfers to the Trustee, for the benefit of the Owners of the Certificates, the rights of the Corporation under the Lease Agreement, including, but not limited to, the right to receive Lease Payments under the Lease Agreement, and the rights and remedies of the Corporation under the Lease Agreement to enforce payment of Lease Payments and other amounts or otherwise to protect and enforce the Lease Agreement in the Event of Default by the District. Certain rights of the Corporation to payment of advances, indemnification and attorneys' fees and expenses are not assigned.

SITE LEASE

The following is a summary of certain provisions of the Site Lease. This summary does not purport to be complete or definitive and reference is made to the Site Lease for the complete terms thereof.

The Site Lease is entered into between the District, as lessor, and the Corporation, as lessee. The term of the Site Lease began on the date of commencement of the term of the Lease Agreement and will expire on March 31, 2034, unless such term is extended, or unless such term is terminated early in accordance with the Site Lease.

To facilitate the completion of the Improvements, the District leased the Site and the Existing Improvements to the Corporation in return for payment by the Corporation of an advance rental payment equal to the total principal amount of the Certificates and the Corporation's agreement to, in turn, lease the Site, Existing Improvements and that portion of the Project located on the Site to the District pursuant to the Lease Agreement. The District and the Corporation agreed that by reason of the sale of the Certificates and deposit of proceeds pursuant to the provisions of the Trust Agreement, the advance rental payment referenced in the preceding sentence was deemed to have been paid. The District shall apply such rental payment to, among other items, the payment of amounts necessary to complete the Project.

The Corporation shall use the Site and the Existing Improvements solely for the purpose of securing the construction and installation of the Improvements and purposes incidental thereto; *provided, however*, that in the event of default by the District under the Lease Agreement, the Corporation and its assigns may exercise the remedies provided in the Lease Agreement. Title to all Improvements made on the Site and Existing Improvements shall vest in the District.

TRUST AGREEMENT

The following is a summary of certain provisions of the Trust Agreement. This summary does not purport to be complete or definitive and reference is made to the Trust Agreement for the complete terms thereof.

The Trustee is appointed pursuant to the Trust Agreement to act as a depository of amounts held thereunder. The Trust Agreement authorizes the Trustee to prepare, execute and deliver the Certificates. Transfers of the Certificates are to be registered in a Register maintained by the Trustee. The Trust Agreement sets forth the terms of the Certificates, the nature and extent of security, the various rights of the Owners, the rights, duties and immunities of the Trustee and the rights and obligations of the District and Corporation. Certain provisions of the Trust Agreement are summarized below. Other provisions are summarized in this Official Statement under the caption "THE CERTIFICATES."

Funds

The Trust Agreement creates several funds to be maintained by the Trustee for the benefit of the Corporation and the District.

Conversion Fund. On the Closing Date, The Trustee will deposit into the Conversion Fund the amount to be used to purchase the 2004 Certificates pursuant to the Conversion Escrow Agreement and be transferred to the Purchase Fund to be applied to pay the Purchase Price of Holders of tendered Certificates.

Delivery Costs Fund. A portion of the proceeds from the sale of the Certificates will be deposited with the Trustee in the Delivery Costs Fund and be applied to pay costs of the execution, delivery and sale of the Certificates upon the instructions of a District Representative. Any funds remaining in such fund after all such costs have been paid will be transferred to the Lease Payment Fund.

Lease Payment Fund. The Trustee will deposit in the Lease Payment Fund all Lease Payments received from the District and any other amounts required by the Lease Agreement or the Trust Agreement. From proceeds of the Certificates and accrued interest, if any, the Trustee will deposit in the Lease Payment Fund amounts to be used for payment of a portion of the interest portion of the Lease Payment obligation.

The Trustee will withdraw from the Lease Payment Fund on each Interest Payment Date an amount equal to the Lease Payments due from the District on the Lease Payment Date preceding such Interest Payment Date for payment to the Owners of the Certificates.

Certificate Reserve Fund. At the Closing, the Trustee will deposit into the Certificate Reserve Fund an amount equal to the Reserve Requirement. If, on any Interest Payment date, the moneys available in the Lease Payment Fund do not equal the amount of the principal, interest and prepayment premium (if any) with respect to the Certificates then coming due and payable, the Trustee shall apply the moneys available in the Certificate Reserve Fund to make delinquent Lease Payments on behalf of the District by transferring the amount necessary for this purpose to the Lease Payment Fund.

Upon receipt of any delinquent Lease Payment or portion thereof or other funds with respect to which moneys have been advanced from the Certificate Reserve Fund to the extent of such advance.

If, on any Interest Payment Date, the moneys on deposit in the Certificate Reserve Fund and the Lease Payment Fund (excluding amounts required from payment of principal, interest, and prepayment premium (if any) with respect to Certificates not presented for payment) are sufficient to pay all Outstanding Certificates, including all principal, interest and prepayment premiums (if any), the Trustee shall, upon the written direction of a District Representative, transfer all amounts then on deposit in the Certificate Reserve Fund to the Lease Payment Fund to be applied to the payment of the Lease Payments on behalf of the District, and such moneys shall be distributed to the Owners of Certificates in accordance with the Trust Agreement. Any amounts remaining in the Certificate Reserve Fund upon payment in full of all Outstanding Certificates and all amounts due the Trustee under the Trust Agreement, or upon provision for such payment as provided in the Trust Agreement, shall be withdrawn by the Trustee and paid to the District.

Insurance and Condemnation Fund. In the event the Trustee receives net proceeds of insurance in connection with damage or destruction of the Facility or net proceeds from eminent domain proceedings, such proceeds will be deposited in the Insurance and Condemnation Fund and will be applied by the Trustee as described under the heading "LEASE AGREEMENT – Insurance; Eminent Domain" above.

Application of Insurance, Title Insurance and Condemnation Award Proceeds

(a) Any Net Proceeds of insurance against damage to or destruction of any part of the Facility collected by the District in the event of any such damage or destruction shall be paid to the Trustee by the District pursuant to the Lease Agreement and deposited by the Trustee promptly upon receipt thereof in the Insurance and Condemnation Fund.

(b) Within ninety (90) days following the date of such deposit, the District shall determine and notify the Trustee in writing of its determination either (i) that the replacement, repair, restoration, modification or improvement of the Facility is not economically feasible or in the best interest of the

District, or (ii) that all or a portion of such Net Proceeds are to be applied to the prompt replacement, repair, restoration, modification or improvement or the damaged or destroyed portions of the Facility.

(c) In the event the District's determination is as set forth in clause (i) paragraph (b) above, such Net Proceeds shall be promptly transferred by the Trustee to the Lease Payment Fund, applied to the prepayment of Lease Payments pursuant to the Lease Agreement and applied to the prepayment of Certificates; provided, however, that in the event of damage or destruction of the Facility in full, such Net Proceeds may be transferred to the Lease Payment Fund only if sufficient, together with other moneys available therefor, to cause the prepayment of the principal components of all unpaid Lease Payments; provided further, however, that in the event of damage or destruction of the Facility in part, such Net Proceeds may be transferred to the Lease Payment Fund and applied to the Prepayment of Lease Payments only if the resulting Lease Payments represent fair consideration for the remaining portions of the Facility, evidenced by a certificate signed by a District Representative and a Corporation Representative.

(d) In the event the District's determination is as set forth in clause (ii) of paragraph (b) above, Net Proceeds deposited in the Insurance and Condemnation Fund shall be applied to the prompt replacement, repair, restoration, modification or improvement of the damaged or destroyed portions of the Facility by the District, and disbursed by the Trustee upon receipt of requisitions signed by a District Representative stating with respect to each payment to be made (i) the requisition number, (ii) the name and address of the person, firm or Corporation to whom payment is due, (iii) the amount to be paid and (iv) that each obligation mentioned therein has been properly incurred, is a proper charge against the Insurance and Condemnation Fund, has not been the basis of any previous withdrawal, and specifying in reasonable detail the nature of the obligation. The Trustee shall not be responsible for the representations made in such requisitions and may conclusively rely thereon. Any balance of the Net Proceeds remaining after such work has been completed shall be paid to the District.

Application of Net Proceeds of Eminent Domain Award. If all or any part of the Facility shall be taken by eminent domain proceedings (or sold to a government threatening to exercise the power of eminent domain) the Net Proceeds therefor shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the Lease Agreement and shall be applied and disbursed by the Trustee as follows:

(a) If the District has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Facility or the ability of the District to meet any of its obligations with respect to the Facility under the Lease Agreement and (ii) such proceeds are not needed for repair or rehabilitation of the Facility, the District shall so certify to the Trustee and the Trustee, at the District's written request, shall transfer such proceeds to the Lease Payment Fund to be credited towards the prepayment of the Lease Payments pursuant to the Lease Agreement and applied to the prepayment of Certificates.

(b) If the District has given written notice to the Trustee of its determination that (i) such eminent domain proceedings have not materially affected the operation of the Facility or the ability of the District to meet any of its obligations with respect to the Facility under the Lease Agreement, and (ii) such proceeds are needed for repair, rehabilitation or replacement of the project, the District shall so certify to the Trustee and the Trustee, at the District's written request, shall pay to the District, or to its order, from said proceeds such amounts as the District may expend for such repair or rehabilitation, upon the filing with the Trustee of requisitions of the District Representations.

(c) If (i) less than all of the Facility shall have been taken in such eminent domain proceedings or sold to a government threatening the use of eminent domain powers, and if the District has given written notice to the Trustee of its determination that such eminent domain proceedings have materially affected the operation of the Facility or the ability of the District to meet any of its obligations

with respect to the project under the Lease Agreement or (ii) all of the Facility shall have been taken in such eminent domain proceedings, then the Trustee shall transfer such proceeds to the Lease Payment fund to be credited toward the prepayment of the Lease Payments pursuant to the Lease Agreement and applied to the prepayment of Certificates.

(d) In making any such determination, the District may, but shall not be required to, obtain at its expense, the report of an independent engineer or other independent professional consultant a copy of which shall be filed with the Trustee. Any such determination by the District shall be final.

Application of Net Proceeds of Title Insurance Award. The Net Proceeds from a title insurance award shall be deposited with the Trustee in the Insurance and Condemnation Fund pursuant to the Lease Agreement and shall be transferred to the Lease Payment Fund to be credited towards the prepayment of Lease Payments required to be paid pursuant to the Lease Agreement and applied to the prepayment of Certificates.

Investment of Moneys; Allocation of Earnings

Moneys held by the Trustee under the Trust Agreement shall, upon written directions of a District Representative at least two (2) Business Days prior to the making of an investment, be invested and reinvested by the Trustee in Permitted Investments. The Trustee may, in its sole discretion, commingle any of the funds held by it pursuant to the Trust Agreement into a separate fund or funds for investment purposes only, *provided, however*, that all funds or accounts held by the Trustee under the Trust Agreement shall be accounted for separately notwithstanding such commingling by the Trustee; *and provided, however*, that the Trustee shall not commingle, remarketing proceeds or moneys representing Available Moneys to be applied as a prepayment premium.

All interest or income received by the Trustee on investment of the Lease Payment Fund shall, as received, be retained in the Lease Payment. Amounts retained in the Lease Payment Fund shall be applied as a credit against the Lease Payment due by the District pursuant to the Lease Agreement on the Lease Payment date following the date of deposit. All interest or income received by the Trustee on investment of the Certificate Reserve Fund shall be retained in the Certificate Reserve Fund in the event that amounts on deposit in the Certificate Reserve Fund are less than the Reserve Requirement. In the event that amounts then on deposit in the Certificate Reserve Fund equal or exceed the Reserve Requirement, such excess shall, as received, be transferred to the Lease Payment Fund and shall be applied as a credit against the Lease Payment due by the District pursuant to the Lease Agreement on the Lease Payment date following the date of deposit. All interest or income in the Delivery Costs Fund shall be transferred to the Lease Payment Fund.

Certificates

The Trustee is directed by the Trust Agreement, upon written request from the Corporation, to prepare, execute and deliver to the Original Purchaser, the Certificates in their aggregate principal amount.

The Trust Agreement contains procedures and regulations with respect to exchanges and transfers of Certificates, for conditions of delivery of temporary Certificates, for procedures for Certificates which are mutilated, lost, destroyed or stolen, for evidence of signatures of Certificate Owners and ownership of Certificates and for procedures with respect to payment of Certificates. The Trustee shall not be required to transfer or exchange any Certificate after the mailing of notice calling such Certificate or portion thereof for prepayment, nor during the fifteen days preceding the giving of such notice of prepayment.

The Trustee is appointed as a paying agent for the Certificates. Principal and premium, if any, with respect to the Certificates is payable at the principal office of the Trustee. Interest with respect to the Certificates is payable by check or draft of the Trustee mailed to the owner of record at the address shown on the certificate register required to be maintained by the Trustee as of the fifteenth day of the month preceding the interest payment date (provided, however, that at the option of any Owner of at least one million dollars in aggregate principal amount, interest will be wired to an account designated by such Owner).

Limitation of Liability

The Trust Agreement contains certain provisions limiting the liability of the parties thereto, including, but not limited to, the following provisions:

(a) Neither the Corporation nor District shall have any obligation or liability to the Owners of the Certificates with respect to the performance by the Trustee of duties imposed upon it by the Trust Agreement.

(b) Except as provided in the Trust Agreement, neither the Corporation nor the Trustee shall have any obligation or liability to the Owners of the Certificates with respect to the payment of the Lease Payments by the District when due, or with respect to the performance by the District of any other covenant made by it in the Lease Agreement; and

(c) The Trustee shall not be responsible for the sufficiency or the validity of the Lease Agreement or for the sufficiency of the Trust Agreement or the Certificates; the assignment made to it of rights to receive moneys pursuant to the Lease agreement; or the value of or title to the Facility. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it under the terms of and in accordance with the Trust Agreement.

Rights of Owners to Institute Proceedings

No Owner of any Certificate executed and delivered pursuant to the Trust Agreement shall have any right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the Occurrence of an Event of Default thereunder; (b) the Owners of at least the majority in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers granted therein or to institute such action, suit or proceeding in its own name; (c) said Owners must have tendered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request; and (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by and said tender of indemnity shall have been made to the Trustee; provided, however, that the Owners shall not have the right to institute any suite, action or proceeding at law or equity so long as the Certificate Insurance Policy is in effect the Insurer is not in default thereunder.

Such notification, request, tender of indemnity and refusal or omission are, in every case, to be conditions precedent to the exercise by any Owner of Certificates of any remedy thereunder; it being understood and intended that no one or more Owners of Certificates shall have any right in any manner whatever by his or their action to enforce any right under the trust Agreement, except in the manner therein provided, and that all proceedings at law or in equity with respect to an Event of Default shall be instituted, had and maintained in the manner therein provided and for the equal benefit of all Owners of the Outstanding Certificates.

The rights of any Owner of any certificate to receive payment of said Owner's fractional interest in the Lease Payments as the same become due, or to institute suit for the enforcement of such

payment, shall not be impaired or affected without the consent of such Owner, notwithstanding any provision of the Trust Agreement.

Events of Default; Remedies

The following shall be Events of Default:

(i) Failure by the District to pay any Lease Payment or Additional Payment required to be paid under the Trust Agreement at the time specified therein.

(ii) Failure by the District to keep, observe or perform any other term, covenant, condition or agreement on its part to be observed or performed, other than as referred to in the Lease Agreement for a period of thirty (30) days after the earlier of: (a) actual knowledge of such failure by the District or (b) written notice identifying in reasonable detail such failure and requesting that it be remedied has been given to the District by the Corporation, the Trustee, the Certificate Insurer or the Owners of not less than five percent (5%) in aggregate principal amount of Certificates then outstanding (provided that such request by Owners shall be effective only upon receipt of the written concurrence of the Certificate Insurer or without such concurrence if the Certificate Insurance Policy is no longer in effect), *provided, however*, if the failure stated in the notice can be corrected, but not within the applicable period, the Corporation, the Trustee, the Certificate Insurer (so long as the Certificate Insurance Policy is in effect) and such Owners shall not unreasonably withhold their consent to an extension of such time if corrective action is instituted by the District within the applicable period and diligently pursued until the default is corrected.

(iii) The filing by the District of a voluntary petition in bankruptcy, or failure by the District promptly to lift any execution, garnishment or attachment, or adjudication of the District as a bankrupt, or assignment by the District for the benefit of creditors, or the entry by the District into an agreement of composition with creditors, or the approval by a court of competent jurisdiction of a petition applicable to the District in any proceedings instituted under the provisions of the Federal Bankruptcy Code, as amended, or under any similar acts which may hereafter be enacted.

(iv) The occurrence of an Event of Default under, and as defined in, the Lease Agreement, and notice to the District, the Corporation and the Trustee of such occurrence.

Remedies. Upon the prior written consent of the Certificate Insurer (so long as the Certificate Insurance Policy is in effect and the Certificate Insurer is not in default), whenever any event of default referred to in the Lease Agreement has occurred, the Corporation may exercise any and all remedies available pursuant to law or granted pursuant to the Lease Agreement; *provided, however*, that notwithstanding anything therein or in the Trust Agreement to the contrary, there shall 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. Each and every covenant thereof to be kept and performed by the District is expressly made a condition and upon the breach thereof and with the prior written consent of the Certificate Insurer, the Corporation may exercise any and all rights of entry and re-entry upon the Facility, and also with or without such entry, may terminate the Lease Agreement provided, that no such termination shall be effected either by operation of law or acts of the parties hereto, except only in the manner therein expressly provided. In the event of such default and notwithstanding any re-entry by the Corporation, the District shall, as therein expressly provided, continue to remain liable for the payment of the Lease Payments and/or damages for breach of the Lease Agreement and the performance of all conditions therein contained and, in any event such rent and/or damages shall be payable to the Corporation at the time and in the manner as therein provided, to wit:

(b) Subject to the rights of the Certificate Insurer to direct remedies (so long as the Certificate Insurance Policy is in effect), in the event the Corporation does not elect to terminate the

Lease Agreement in the manner therein provided for in subparagraph (b) hereof, the District agrees to and shall remain liable for the payment of all Lease Payments and the performance of all conditions therein contained and shall reimburse the Corporation for any deficiency arising out of the re-leasing of the Facility, or, in the event the Corporation does not re-lease the Facility, then for the full amount of all Lease Payments to the end of the Term of the Lease Agreement, but said Lease Payments and/or deficiency shall be payable only at the same time and in the same manner as hereinabove provided for the payment of Lease Payments thereunder, notwithstanding such entry or re-entry by the Corporation or any suit in unlawful detainer, or otherwise, brought by the Corporation for the purpose of effecting such re-entry or obtaining possession of the Facility or the exercise of any other remedy by the Corporation. The District hereby irrevocably appoints the Corporation as the agent and attorney-in-fact of the District to enter upon and re-lease the Facility in the Event of Default by the District in the performance of any covenants therein contained to be performed by the District and to remove all personal property whatsoever situated upon the Facility to place such property in storage or other suitable place in Kern County, for the account of and at the expense of the District, and the District hereby exempts and agrees to save harmless the Corporation from any costs, loss or damage whatsoever arising or occasioned by any such entry upon and re-leasing of the Facility and the removal and storage of such property by the Corporation or its duly authorized agents in accordance with the provisions therein contained. The District hereby waives any and all claims for damages caused or which may be caused by the Corporation in re-entering and taking possession of the Facility as therein provided and all claims for damages that may result from the destruction of or injury to the Facility and all claims for damages to or loss of any property belonging to the District that may be in or upon the Facility. The District agrees that the terms of the Lease Agreement constitute full and sufficient notice of the right of the Corporation to re-lease the Facility in the event of such re-entry without effecting a surrender of the Lease Agreement, and further agrees that no acts of the Corporation in effecting such re-leasing shall constitute a surrender or termination of the Lease Agreement 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 District the right to terminate the Lease Agreement shall vest in the Corporation to be effected in the sole and exclusive manner thereafter provided for in subparagraph (b) hereof. The District further waives the right to any rental obtained by the Corporation in excess of the Lease Payments and hereby conveys and releases such excess to the Corporation as compensation to the Corporation for its services in re-leasing the Facility.

(c) Subject to the rights of the Certificate Insurer to direct remedies (so long as the Certificate Insurance Policy is in effect and the Certificate Insurer is not in default thereunder), in an Event of Default under the Trust Agreement, the Corporation may terminate the Lease Agreement and release all or any portion of the Facility. In the event of the termination of the Lease Agreement by the Corporation and in the manner thereafter provided on account of default by the District (and notwithstanding any re-entry upon the Facility by the Corporation in any manner whatsoever or the re-leasing or sale of the Facility), the District nevertheless agrees to pay to the Corporation all costs, loss or damages howsoever arising or occurring payable at the same time and in the same manner as is therein provided in the case of payment of Lease Payments. Any surplus received by the Corporation from such re-leasing shall be the absolute property of the Corporation and the District shall have no right thereto, nor shall the District be entitled to any credit in the event of a deficiency in the rentals received by the Corporation from the Facility. Neither notice to pay rent or to deliver up possession of the premises given pursuant to law nor any proceeding in unlawful detainer taken by the Corporation shall of itself operate to terminate the Lease Agreement, and no termination of the Lease Agreement on account of default by the District shall be or become effective by operation of law, or otherwise, unless and until the Corporation shall have given written notice to the District of the election on the part of the Corporation to terminate the Lease Agreement. The District covenants and agrees that no surrender of the Facility or of the remainder of the Term of the Lease or any termination of the Lease Agreement shall be valid in any manner or for any purpose whatsoever unless stated or accepted by the Corporation by such written notice.

Notwithstanding any other provisions of the Lease Agreement, so long as the District has obligations to the Certificate Insurer, the Certificate Insurer shall have the right to direct the remedies to be taken upon any Event of Default under the Trust Agreement, and the Certificate Insurer's consent shall be required for any remedial action taken by the Trustee or the Corporation under the Trust Agreement.

Limitation on Certificate Owners' Right to Sue. No Owner of any Certificate will have any right to institute any suit, action or proceeding at law or in equity, for any remedy under or upon the Trust Agreement, unless (a) such Owner shall have previously given to the Trustee written notice of the occurrence of an Event of Default under the Trust Agreement, (b) the Owners of at least twenty-five percent (25%) in aggregate principal amount of all the Certificates then Outstanding shall have made written request upon the Trustee to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name; (c) said Owners shall have tendered to the Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request; (d) the Trustee shall have refused or omitted to comply with such request for a period of sixty (60) days after such written request shall have been received by, and said tender of indemnity shall have been made to, the Trustee and (e) the Certificate Insurer has given its prior written consent; *provided, however,* that the Owners shall not have the right to institute any suit, action or proceeding at law or in equity.

Payment Procedure Pursuant to Certificate Insurance Policy.

(a) The Trustee agrees to comply with the following provisions with respect to the Certificates:

(i) At least one (1) Business Day prior to any Interest Payment Date or Principal Payment Date on the Certificates, the Trustee will determine whether there will be sufficient funds to pay all principal of or interest on the Certificates on such Interest Payment Date or Principal Payment Date. If the Trustee determines that there will be insufficient funds, the Trustee shall so notify Certificate Insurer or its designee. Such notice shall specify the amount of the anticipated deficiency, the Certificates to which such deficiency is applicable and whether such Certificates will be deficient as to principal or interest, or both. If the Trustee has not so notified Certificate Insurer at least one (1) Business Day prior to an Interest Payment Date or Principal Payment Date, Certificate Insurer will make payments of principal or interest due on the Certificates on or before the first (1st) Business Day next following the date on which Certificate Insurer shall have received notice of nonpayment from the Trustee.

(ii) The Trustee shall, after giving notice to Certificate Insurer as provided in (i) above, make available to Certificate Insurer and, at Certificate Insurer's direction, to The Bank of New York, in New York, New York, as insurance trustee for Certificate Insurer or any successor insurance trustee (the "Certificate Insurer Paying Agent"), the registration books of the District maintained by the Trustee and all records relating to the funds and accounts maintained under the Trust Agreement.

(iii) The Trustee shall provide Certificate Insurer and the Certificate Insurer Paying Agent with a list of registered owners of the Certificates entitled to receive principal or interest payments from Certificate Insurer under the terms of the Certificate Insurance Policy, and shall make arrangements with the Certificate Insurer Paying Agent (i) to mail checks or drafts to the registered owners of the Certificates entitled to receive full or partial interest payments from Certificate Insurer and (ii) to pay principal upon Certificates surrendered to the Certificate Insurer Paying Agent by the Owners entitled to receive full or partial principal payments from Certificate Insurer.

(iv) The Trustee shall, at the time it provides notice to Certificate Insurer pursuant to (i) above, notify the Owners entitled to receive the payment of principal or interest

thereon from Certificate Insurer (i) as to the fact of such entitlement, (ii) that Certificate Insurer will remit to them all or a part of the interest payments next coming due upon proof of Holder entitlement to interest payments and delivery to the Certificate Insurer Paying Agent, in form satisfactory to the Certificate Insurer Paying Agent, of an appropriate assignment of the Owner's right to payment, (iii) that should they be entitled to receive full payment of principal from Certificate Insurer, they must surrender their Certificates (along with an appropriate instrument of assignment in form satisfactory to the Certificate Insurer Paying Agent to permit ownership of such Certificates to be registered in the name of Certificate Insurer) for payment to the Certificate Insurer Paying Agent, and not the Trustee, and (iv) that should they be entitled to receive partial payment of principal from Certificate Insurer, they must surrender their Certificates for payment thereon first to the Trustee who shall note on such Certificates the portion of the principal paid by the Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Certificate Insurer Paying Agent, to the Certificate Insurer Paying Agent, which will then pay the unpaid portion of principal.

(v) In the event that the Trustee has notice that any payment of principal of or interest on the Certificates which have become due for payment and which is made to a Holder by or on behalf of the District has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Trustee shall, at the time Certificate Insurer is notified pursuant to (i) above, notify all the Owners that in the event that any registered owner's payment is so recovered, such Owner will be entitled to payment from Certificate Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to Certificate Insurer its records evidencing the payments of principal of and interest on the Certificates which have been made by the Trustee, and subsequently recovered from the Owners and the dates on which such payments were made.

(vi) In addition to those rights granted Certificate Insurer under the Trust Agreement, Certificate Insurer shall, to the extent it makes payment of principal of or interest on the Certificates due, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Certificate Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Trustee shall note Certificate Insurer's rights as subrogee on the registration books of the District maintained by the Trustee, if any, upon receipt from Certificate Insurer of proof of the payment of interest thereon to the Owners of the Certificates, and (ii) in the case of subrogation as to claims for past due principal, the Trustee shall note Certificate Insurer's rights as subrogee on the registration books of the of the District maintained by the Trustee or Paying Agent, if any, upon surrender of the Certificates by the Owners thereof together with proof of the payment of principal thereof.

Amendments or Supplement Permitted

The Trust Agreement and the rights and obligations of the District under the Lease Agreement and the rights and obligations of the parties thereto, may be modified, supplemented or amended at any time by an amendment or a supplemental agreement which shall become effective when the written consent of the Certificate Insurer or, if the Certificate Insurance Policy is in default, the majority of Holders shall have been filed with the Trustee. No such modification or amendment shall (i) extend or have the effect of extending the fixed maturity of any Certificate or reducing the interest rate with respect thereto or extending the time of payment of interest, or reducing the amount of principal thereof or reducing any premium payable upon the prepayment thereof, without the express consent of the Owner of such Certificate, or (ii) reduce or have the effect of reducing the percentage of Certificates required for the affirmative vote or written consent to an amendment or modification of the Lease Agreement, or (iii) modify any of the rights or obligations of the Trustee without its written assent thereto.

The Trust Agreement and the rights and obligations of the District, Owners of the Certificates and the Lease Agreement and the rights and obligations of the respective parties thereto, may also be modified or amended at any time by a supplemental agreement, with the consent of the Certificate Insurer but without the consent of any such Owners, but only to the extent permitted by law and only:

(i) to add to the covenants and agreements of any party, other covenants, to be observed, or to surrender any right or power herein or therein reserved to the District;

(ii) to cure, correct or supplement any ambiguous or defective provision contained herein or therein and which shall not adversely affect the interests of the Owners of the Certificates;

(iii) in regard to questions arising under the Trust Agreement or thereunder, as the parties hereto or thereto may deem necessary or desirable;

(iv) to make such additions, deletions or modifications as may be necessary or desirable to assure exclusion from gross income for purposes of federal income taxation of interest with respect to the Certificates;

(v) to the extent necessary to obtain a rating with respect to the Certificates from the Rating Agency; or

(vi) to substitute the Improvements in accordance with the Lease Agreement; provided that no such amendment shall, in the opinion of nationally recognized Special Counsel, materially adversely affect the interests of the Owners of the Certificates or shall impair the right of any Owner to receive, in any case, such Owner's fractional share of any Lease Payment in accordance with such Owner's Certificate. Any such supplemental agreement shall become effective upon execution and delivery by the parties hereto or thereto as the case may be.

The Trust Agreement and the Lease Agreement may not be modified or amended at any time by a supplemental agreement which would modify any of the rights and obligations of the Trustee without its written assent thereto.

The Trustee and the Certificate Insurer may obtain an opinion of Independent Counsel that any amendment entered into under the Trust Agreement complies with the provisions of the Trust Agreement and the Trustee may rely conclusively on such opinion.

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX C

FORM OF SPECIAL COUNSEL OPINION

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX C

FORM OF SPECIAL COUNSEL OPINION*

[DATED THE DATE OF DELIVERY]

Board of Trustees of the
Kern Community College District
Bakersfield, California

Final Opinion: \$_____ Certificates of Participation (2008 Conversion of 2004 Variable Rate Certificates) Evidencing Direct, Undivided Fractional Interests of the Owners Thereof in Lease Payments to be made by the Kern Community College District (Kern County, California) As the Rental for Certain Property Pursuant to a Lease Agreement with the Kern Community College District Public Facilities Corporation

Members of the Board of Trustees:

We have acted as Special Counsel in connection with the delivery by the Kern Community College District (the "District"), of its \$39,950,000 Lease Agreement, dated as of March 1, 2004, by and between the Kern Community College District Public Facilities Corporation (the "Corporation") and the District (the "Original Lease"), as amended by that certain Amendment to Lease Agreement dated as of June 1, 2008 ("Amendment to Lease Agreement"; together with the Original Lease collectively referred to as, the "Lease Agreement"), pursuant to the California Education Code. The Corporation has, pursuant to the Assignment Agreement, dated as of March 1, 2004 (the "Assignment Agreement"), by and between the Corporation and Deutsche Bank National Trust Company, as trustee (the "Trustee"), assigned certain of its rights under the Original Lease, including its right to receive a portion of the lease payments made by the District thereunder (the "Lease Payments"), to the Trustee. Pursuant to the Amended and Restated Trust Agreement, dated as of June 1, 2008, by and among the Trustee, the Corporation and the District (the "2008 Trust Agreement") which amends and restates in its entirety that certain Trust Agreement dated as of March 1, 2004 (the "Original Trust Agreement"; together with the 2008 Trust Agreement collectively referred to as, the "Trust Agreement") with respect to the Certificates of Participation (2004 Capital Improvements Projects) (the "Original Certificates"), the Trustee has executed and delivered certificates of participation (the "2008 Certificates"; together with the Original Certificates referred to collectively as, the "Certificates") evidencing direct, undivided fractional interests of the owners thereof in the Lease Payments. We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

Factual Examination

As to questions of fact material to our opinion, we have relied upon representations and certifications of the District including, but not limited to

*Preliminary, subject to change

representations and certifications contained in the Lease Agreement and in the certified proceedings and certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

In such connection, we have reviewed the Trust Agreement, the Lease Agreement and the Tax Certificate dated the date hereof (the "Tax Certificate"), executed by the District, opinions of counsel to the District and the Corporation, the Trustee and the Certificate Insurer, certificates of the District, the Trustee, the Corporation and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The interest rate and certain agreements and requirements contained or referred to in the Trust Agreement, the Lease Agreement, the Tax Certificate and other relevant documents may be changed and certain actions (including, without limitation, defeasance of Certificates) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Certificate or the interest with respect thereto if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District (and, for purposes of the opinion numbered 3 below, the Corporation).

Scope of Inquiry: Certain Qualifications and Assumptions

We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second and third paragraphs hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Trust Agreement, the Lease Agreement and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Certificates to be included in gross income for federal income tax purposes. We have assumed that the Assignment Agreement, the Original Trust Agreement and the Original Lease are valid, binding and enforceable in accordance with their terms. We call attention to the fact that the rights and obligations under the Certificates, the Trust

*Preliminary, subject to change

Agreement, the Lease Agreement, the Assignment Agreement and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles and to the exercise of judicial discretion in appropriate cases. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or subject to the lien of the Trust Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Opinion.

Based upon our examination, we are of the opinion, under existing law, as follows:

1. The District is validly existing as a community college district organized and existing under the laws of the State of California with the power to enter into the Amendment to Lease Agreement and the 2008 Trust Agreement and to perform the agreements on its part contained therein.

2. The Amendment to Lease Agreement has been duly authorized, executed and delivered by the District and is an obligation of the District valid, binding and enforceable against the District in accordance with its terms.

3. Subject to the terms and provisions of the Lease Agreement, the Lease Payments to be made by the District are payable from general funds of the District lawfully available therefor. By virtue of the Assignment Agreement, the owners of the Certificates are entitled to receive their fractional share of the Lease Payments in accordance with the terms and provisions of the Trust Agreement.

5. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations; it should be noted, however, that, for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes), such interest is taken into account in determining certain income and earnings. The opinions set forth in the preceding sentences are subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the delivery of the Lease Agreement in order that such interest be, or continue to be, excluded from gross income

*Preliminary, subject to change

for federal income tax purposes. The District has covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of delivery of the Lease Agreement. We express no opinion regarding other tax consequences arising with respect to the Lease Agreement and the Certificates or to the ownership or disposition of, or the accrual or receipt of interest on, the Certificates. We express no opinion with respect to the federal income tax consequences of any payments received with respect to the Certificates following termination of the Lease Agreement as a result of non-appropriation of funds or the occurrence of an event of default thereunder.

6. The portion of the Lease Payments designated as and comprising interest and received by the owners of the Certificates is exempt from personal income taxation imposed by the State of California.

We express no opinion with respect to laws becoming effective after the date hereof or the effect or applicability of the laws of other jurisdictions. This opinion relates only to matters as of the date hereof, and we express no opinion with respect to any transaction, transfer, conveyance, obligation or performance occurring after the date hereof. We disclaim any obligation to advise you of any events occurring or coming to our attention or any developments in areas covered by this opinion that occur after the date of this opinion.

Respectfully submitted,

APPENDIX D

FORM OF CONTINUING DISCLOSURE AGREEMENT

THIS PAGE INTENTIONALLY LEFT BLANK

APPENDIX D

\$**,***,**

CERTIFICATES OF PARTICIPATION
(2008 Conversion of 2004 Variable Rate Certificates)
Evidencing Direct, Undivided Fractional Interests
of the Owners Thereof in Lease Payments
to be made by the
KERN COMMUNITY COLLEGE DISTRICT,
As the Rental for Certain Property
Pursuant to a Lease Agreement with the
KERN COMMUNITY COLLEGE DISTRICT PUBLIC FACILITIES CORPORATION

CONTINUING DISCLOSURE AGREEMENT*

This CONTINUING DISCLOSURE AGREEMENT (the "Disclosure Certificate") is executed and delivered by the **KERN COMMUNITY COLLEGE DISTRICT** (the "District") in connection with the execution and delivery of \$**,***,** Kern Community College District Certificates of Participation (2008 Conversion of 2004 Variable Rate Certificates) (the "Certificates"). The Certificates are being executed and delivered pursuant to an Amended and Restated Trust Agreement, dated as of June 1, 2008, by and among **DEUTSCHE BANK NATIONAL TRUST COMPANY**, as Trustee, the District and the Kern Community College District Public Facilities Corporation (the "Trust Agreement"). The District covenants and agrees as follows:

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

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

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

"Dissemination Agent" shall mean Deutsche Bank National Trust Company, or any successor Dissemination Agent designated in writing by the District and which has filed with the District and the Trustee a written acceptance of such designation.

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

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

"Participating Underwriter" shall mean Nollenberger Capital Partners, Inc., as original underwriter of the Certificates required to comply with the Rule in connection with offering of the Certificates.

“Repository” shall mean each National Repository and each State Repository.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same shall be amended from time to time.

“State Repository” shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

Section 3. Provision of Annual Reports.

(a) The District shall or shall direct the Dissemination Agent to, not later than nine months (November 31) after the end of the District’s Fiscal Year (which fiscal year currently ends on June 30) commencing with the report for the 2006-2007 Fiscal Year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate with a copy to the Trustee. Not later than fifteen (15) Business Days before said date, the District shall provide the Annual Report to the Dissemination Agent (if other than the District). The District shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by it hereunder. The Dissemination Agent and the Trustee may conclusively rely upon such certification of the District and shall have no duty or obligation to review such Annual Report. The Annual Report shall be submitted as a single document or as separate documents comprising a package, and shall include by reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the District be submitted separately from the balance of the Annual Report, and later than the date required above for the filing of the Annual Report if not available by that date. If the District’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(c) hereof.

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

(c) The Dissemination Agent shall:

(i) determine each year prior to the date for providing the Annual Report the name and address of each National Repository and each State Repository, if any; and

(ii) if the Dissemination Agent is other than the District and has been directed to file the Annual Report pursuant to Section 3(a) hereof, the Dissemination Agent shall file a report with the District certifying whether the Annual Report has been filed pursuant to this Disclosure Certificate, stating the date it was filed and listing all the Repositories with which it was filed.

Section 4. Content of Annual Reports. The District’s Annual Report shall be in a format suitable for filing with each Repository and shall contain or incorporate by reference the following:

(a) Audited Financial Statements prepared in accordance with generally accepted accounting principles as promulgated to apply to governmental entities from time to time by the Governmental Accounting Standards Board. If the District's audited financial statements are not available by the time the Annual Report is required to be filed pursuant to Section 3(a) hereof, the Annual Report shall contain unaudited financial statements in a format similar to the financial statements contained in the final Official Statement, and the audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the annual filing deadline for Annual Reports provided for in Section 3 above, financial information and operating data with respect to the District for preceding Fiscal Year, substantially similar to that provided in the official statement for the Certificates.

Any or all of the items listed above shall be included by specific reference to other documents, including official statements of debt issues of the District or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The District shall clearly identify each such other document so included by reference.

(c) In addition to any of the information expressly required to be provided under this Disclosure Certificate, the District shall provide such further material information, if any, as shall be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

Section 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, the District shall give, or cause to be given, notice of the occurrence of any of the following events (the "Listed Events") with respect to the Certificates, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.

- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) Whenever the District obtains knowledge of the occurrence of a Listed Event, the District shall, within ten (10) days, determine if such event would be material under applicable Federal securities law. The Trustee or the Dissemination Agent shall have no role or any responsibility for such determination.

(c) If the District determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the District shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository with a copy to the Trustee. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Certificates pursuant to the Trust Agreement.

Section 6. Termination of Reporting Obligation. The District's, the Trustee's and the Dissemination Agent's If different obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Certificates. If such termination occurs before the final maturity of the Certificates, the District shall give notice of such termination in the same manner as for a Listed Event under Section 5(c) hereof.

Section 7. Dissemination Agent. The District shall, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and shall discharge any such Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent, if other than the District, shall not be responsible in any manner for the format or content of any notice or Annual Report prepared by the District pursuant to this Disclosure Certificate. Any person succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any papers or any further act. The initial Dissemination Agent shall be Deutsche Bank National Trust Company. The Dissemination Agent shall resign, with or without appointment of a successor Dissemination Agent, upon thirty days prior notice to the District. The Dissemination Agent shall be entitled to reasonable compensation for its services hereunder and reimbursement of its out-of-pocket expenses including, but not limited to, attorneys' fees. The Dissemination Agent shall (i) consult with and rely upon an opinion of counsel as a cost of its performance in connection with any action or in action requested or required by the District with respect to disclosure matters and (ii) conclusively rely upon any certificate or certification presented to it for action by the District.

Section 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the District shall amend this Disclosure Certificate, and any provision of this Disclosure Certificate shall be waived, if the following conditions are satisfied provided neither the Trustee nor the Dissemination Agent shall be obligated to enter into any amendment expanding the scope of their respective duties and obligations hereunder:

(a) if the amendment or waiver relates to the provisions of Sections 3(a), 4 or 5(a), it shall only be made in connection with a change in circumstances that arises from a change in

legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Certificates, or type of business conducted;

(b) the undertakings herein, as proposed to be amended or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Certificates, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Certificates in the manner provided in the Trust Agreement for amendments to the Trust Agreement with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Certificates.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the first annual financial information filed pursuant hereto containing the amended operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the District to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c) hereof.

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

Section 10. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, the Trustee but only to the extent of payment of its fees and expenses and receipt of satisfactory indemnity as set forth in the Trust Agreement, at the request of any Participating Underwriter or the holders of at least twenty-five (25%) in aggregate principal amount of Outstanding Certificates, shall, or any holder or beneficial owner of the Certificates shall take such actions as shall be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an Event of Default under the Trust Agreement, and the sole remedy under this

Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. Article VIII of the Trust Agreement is hereby made applicable to this Disclosure Certificate as if this Disclosure Certificate were (solely for this purpose) contained in the Trust Agreement and the Dissemination Agent and Trustee shall be entitled to the benefits, protections and provisions thereof to the same extent as the Trustee. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it shall incur arising out of or in the exercise or performance of its powers and duties hereunder, including, but not limited to, the costs and expenses (including attorneys fees of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. Such indemnity shall be separate from and in addition to that provided to the Trustee under the Trust Agreement. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent, payment of the Certificates and termination of this Disclosure Certificate pursuant to Section 6 hereof. The Dissemination Agent shall have no liability for failure to report any event or item of financial information as to which the District has not provided it in an information report in format suitable for filing with the Repositories. The Dissemination Agent shall have no obligation or liability for the accuracy or completeness of any Annual Report or report of materiality under Section 5(b) hereof and shall not be deemed to be acting in any fiduciary capacity hereunder for the District or for any Certificate owner.

Section 12. Fees. The District shall compensate and reimburse the Dissemination Agent within thirty (30) days of receipt of an invoice for such compensation and reimbursement.

Section 13. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Trustee, the Dissemination Agent, the Participating Underwriter and holders and beneficial owners from time to time of the Certificates, and shall create no rights in any other person or entity.

Date: June __, 2008

KERN COMMUNITY COLLEGE DISTRICT

By: _____
Thomas J. Burke, Chief Financial Officer

ACKNOWLEDGED:

DEUTSCHE BANK NATIONAL
TRUST COMPANY,
as Dissemination Agent

By: _____
Carl Becker, Authorized Officer

EXHIBIT A

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

Name of Issuer: Kern Community College District

Name of Issue: \$_____ Certificates Of Participation (2008 Conversion of 2004
Variable Rate Certificates) Evidencing Direct, Undivided Fractional
Interest Of The Owners Is Lease Payments To Be Made By The Kern
Community College District, As The Rental For Certain Property
Pursuant To A Lease Agreement With The Kern Community College
District Public Facilities Corporation

Date of Issuance: June ____, 2008

NOTICE IS HEREBY GIVEN that the Issuer has not provided an Annual Report with
respect to the above-named Certificates as required by Section 3 of the continuing disclosure
undertaking entered into by the Issuer on _____, pursuant to Section 10.12 of the
Trust Agreement dated as of June 1, 2008, by and among Deutsche Bank National Trust
Company, as trustee, the District and the Kern Community College District Public Facilities
Corporation. The District anticipates that the Annual Report will be filed by _____.

Dated: _____

KERN COMMUNITY COLLEGE DISTRICT

By: _____
Thomas J. Burke, Chief Financial Officer

cc: Trustee

APPENDIX E

SPECIMAN CERTIFICATE INSURANCE POLICY

Endorsement

Policy for:

Attached to and forming part of Policy No.:

Effective Date of Endorsement:

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

Nothing herein contained shall be held to vary, alter, waive or extend any of the terms, conditions, provisions, agreements or limitations of the above mentioned Policy other than as above stated.

In Witness Whereof, Ambac has caused this Endorsement to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

Ambac Assurance Corporation



President



Secretary

Authorized Representative



Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

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

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee

