

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however, to certain qualifications described herein under existing law, the interest on the Bonds is excluded from gross income for Federal income tax purposes and such interest is not an item of tax preference for purposes of Federal alternative minimum tax imposed on individuals and corporations, although, for the purpose of computing the alternative minimum tax imposed on certain corporations, such interest is taken into account in determining certain income and earnings. In the further opinion of Bond Counsel, such interest is exempt from California personal income taxes. See "TAX MATTERS" herein.

**\$5,000,000**  
**ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS**  
**Insured Health Facility Revenue Bonds**  
**(Becoming Independent)**  
**2004 Series A**

**Dated: January 1, 2004**

**Due: February 1, as shown below**

The above-referenced bonds (the "Bonds") are issued by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") to fund a loan to Becoming Independent (the "Corporation") to assist the Corporation in the financing and refinancing of health facilities in the County of Sonoma, California.

The Bonds are secured by and will be equally and ratably payable from loan payments made by the Corporation to the Authority under the Loan Agreement (described herein) and from certain funds held under the Indenture (described herein). Scheduled loan payments are sufficient to pay the principal of and interest on the Bonds. Such payments constitute revenues of the Authority (the "Revenues" as defined herein) pledged for payment of the Bonds pursuant to the Indenture.

The Bonds are limited obligations of the Authority payable from the pledge of Revenues, as and to the extent specified in the Indenture. No form of taxation has been pledged or levied to provide for payment of the Bonds. The Authority will assign to the Trustee its interests under the Loan Agreement and will grant to the Trustee a lien on and pledge of Revenues and monies and investments held in the funds and accounts created under the Indenture.

The Bonds are issuable in the form of fully registered bonds in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases will be made in book-entry form only through DTC participants in the principal amount of \$5,000 or any integral multiple thereof. So long as DTC or its nominee is the registered owner of the Bonds, payment of principal of, premium (if any) and interest on the Bonds will be made directly to DTC or its nominee by U.S. Bank National Association, Seattle, Washington, as Trustee. See "APPENDIX G— DTC and the Book-Entry System" herein.

Interest on the Bonds is payable semi-annually on each August 1 and February 1, commencing August 1, 2004. **The Bonds are subject to redemption prior to maturity as described herein.**

The Bonds will be insured by the Office of Statewide Health Planning and Development of the State of California (the "Office") pursuant to Article XVI, Section 4 of the California Constitution and Division 107, Part 6, Chapter 1 of the California Health and Safety Code, and all debentures issued in payment of any claims under such insurance will be fully and unconditionally guaranteed by the State of California, all as more fully described herein. See "SECURITY FOR THE BONDS".

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO, DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY OR ABAG HAS ANY TAXING POWER.

Payment of principal of and interest on the Bonds will be insure in accordance with the terms of a financial guaranty insurance policy (the "Policy") to be issued simultaneously with the delivery of the Bonds by Radian Asset Assurance Inc. (the "Insurer").



**Maturity Schedule**

<b>Maturity Date (February 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>	<b>Maturity Date (February 1)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Yield</b>
2005	\$ 25,000	2.000%	1.800%	2012	\$155,000	3.875%	3.950%
2006	75,000	2.125	2.200	2013	165,000	4.000	4.100
2007	100,000	2.500	2.600	2014	170,000	4.125	4.250
2008	140,000	3.000	3.000	2015	175,000	4.250	4.375
2009	140,000	3.125	3.250	2016	185,000	4.400	4.500
2010	145,000	3.375	3.450	2017	190,000	4.500	4.600
2011	150,000	3.625	3.700	2018	200,000	4.600	4.700

**\$905,000, 5.000% Term Bonds due February 1, 2022, Price: 100.00%**  
**\$2,080,000, 5.150% Term Bonds due February 1, 2029, Price: 100.00%**

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

The Bonds are offered when, as and if issued and received by the Underwriter, subject to an approving legal opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by Nixon Peabody LLP, San Francisco, California and for the Corporation by David S. Cooper, Esq., Santa Rosa, California. Certain legal matters will be passed upon by Jones Hall, A Professional Law Corporation, San Francisco, California, as Disclosure Counsel. It is expected that the Bonds in definitive form will be available for delivery to DTC in New York, on or about January 21, 2004.

**ALTURA, NELSON & CO.**  
Incorporated

## GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

**Use of Official Statement.** This Official Statement is submitted in connection with the sale of the Bonds referred to herein and may not be reproduced or used, in whole or in part, for any other purpose. This Official Statement is not to be construed as a contract with the purchasers of the Bonds.

**Estimates and Forecasts.** When used in this Official Statement and in any continuing disclosure by the Authority or the Corporation, in any press release and in any oral statement made with the approval of an authorized officer of the Authority or the Corporation, 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 Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Authority or the Corporation since the date hereof.

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

**Involvement of Underwriter.** The Underwriter has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to investors under the Federal Securities Laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinions herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority or the Corporation since the date hereof. All summaries of the documents referred to in this Official Statement, are made subject to the provisions of such documents, respectively, and do not purport to be complete statements of any or all of such provisions.

**Information Provided by Authority.** The information relating to the Authority contained herein under the heading "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION – The Authority" has been furnished by the Authority. All other information contained herein has been obtained from the Corporation and other sources (other than Authority) that are believed to be reliable, but it is not guaranteed as to accuracy or completeness by and is not to be relied upon or construed as a promise or representation by the Authority.

**Offer and Sale of Bonds.** The Underwriter may offer and sell the Bonds to certain dealers and others at prices lower than the public offering prices set forth on the cover page hereof and said public offering prices may be changed from time to time by the Underwriter.

**OTHER THAN WITH RESPECT TO INFORMATION CONCERNING RADIAN ASSET ASSURANCE INC. CONTAINED UNDER THE CAPTION "FINANCIAL GUARANTY INSURANCE" HEREIN AND IN APPENDIX "H" HERETO, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY RADIAN ASSET ASSURANCE INC., AND RADIAN ASSET ASSURANCE INC. MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO: (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE BONDS; OR (III) THE TAX STATUS OF THE INTEREST ON THE BONDS.**

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

## TABLE OF CONTENTS

INTRODUCTION .....	1
THE PROJECT .....	3
THE BONDS .....	4
General .....	4
SECURITY FOR THE BONDS .....	8
California Health Facility Construction Loan Insurance Program .....	8
Pledge Under the Indenture; Gross Revenues .....	12
Bond Reserve Account .....	13
Deed of Trust .....	14
Rate Covenant .....	14
Parity Debt and Other Indebtedness .....	14
FINANCIAL GUARANTY INSURANCE .....	15
Description of Financial Guaranty Insurance Policy .....	15
ESTIMATED USES AND SOURCES OF FUNDS .....	17
THE CORPORATION .....	17
THE AUTHORITY .....	18
THE TRUSTEE .....	18
BONDHOLDERS' RISKS .....	19
General .....	19
Additional Debt .....	20
Dependence Upon Governmental Funding .....	20
State Rating .....	21
Licensing, Surveys, Facility Inspections and Audits .....	21
Tax-Exempt Status of the Corporation .....	21
Conditional Use of Facilities .....	22
Factors That Could Affect the Validity or Value of the Lien Against the Corporation's Revenues, and the Enforceability of the Loan Agreement .....	23
Bankruptcy .....	23
Affiliation, Merger, Acquisition and Divestiture .....	24
Claims and Insurance Coverage .....	24
Environmental Laws and Regulations .....	25
Marketability of the 2000 Series A Bonds .....	25
Other Factors .....	25
ABSENCE OF MATERIAL LITIGATION .....	26
The Authority .....	26
The Corporation .....	26
TAX MATTERS .....	27
APPROVAL OF LEGALITY .....	27
RATING .....	27
UNDERWRITING .....	27
FINANCIAL STATEMENTS .....	28
FEASIBILITY STUDY .....	28
CONTINUING DISCLOSURE .....	28
MISCELLANEOUS .....	29
APPENDIX A - INFORMATION CONCERNING THE CORPORATION	
APPENDIX B - AUDITED FINANCIAL STATEMENTS OF THE CORPORATION	
APPENDIX C - SUMMARY OF PRINCIPAL LEGAL DOCUMENTS	
APPENDIX D - FORM OF FINAL OPINION OF BOND COUNSEL	
APPENDIX E - FORM OF CONTINUING DISCLOSURE CERTIFICATE	
APPENDIX F - FINANCIAL FEASIBILITY STUDY	
APPENDIX G - DTC AND THE BOOK ENTRY SYSTEM	
APPENDIX H - SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY	

(THIS PAGE INTENTIONALLY LEFT BLANK)

---

## OFFICIAL STATEMENT

---

**\$5,000,000**  
**ABAG Finance Authority for Nonprofit Corporations**  
**Insured Health Facility Revenue Bonds**  
**(Becoming Independent)**  
**2004 Series A**

This Official Statement is furnished in connection with the offering of \$5,000,000 aggregate principal amount of Insured Health Facility Revenue Bonds (Becoming Independent), 2004 Series A (the “Bonds”) issued by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”). All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Indenture and Regulatory Agreement (defined herein). See “APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

### INTRODUCTION

*This Introduction is not a summary of this Official Statement. It is only a brief description of and guide to, and is qualified by, more complete and detailed information contained in the entire Official Statement, including the cover page and appendices hereto, and the documents summarized or described herein. A full review should be made of the entire Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement.*

**Authority to Issue.** The Bonds will be issued under Articles 1 through 4 (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the “Act”), and an Indenture, dated as of January 1, 2004 (the “Indenture”), by and between the Authority and U.S. Bank National Association, Seattle, Washington, as trustee (the “Trustee”).

**Purpose of the Issue.** The proceeds of the Bonds will be loaned to Becoming Independent (the “Corporation”) pursuant to a Loan Agreement, dated as of January 1, 2004, between the Authority and the Corporation (the “Loan Agreement”). The loan proceeds, together with certain funds provided by the Corporation, will be used to finance and refinance the cost of acquisition and construction of improvements to certain health facilities owned and operated by the Corporation in connection with its provision of services to adults with developmental disabilities (collectively, the “Project”) operated by the Corporation in Sonoma

County, California (the "**County**"). See "THE PROJECT" below. Bond proceeds will also be used to fund a Bond Reserve Account in an amount equal to the Bond Reserve Account Requirement and to pay a portion of the costs of issuance of the Bonds, including certain insurance premiums applicable to the Bonds and the certification and inspection fees of the Office,. See "ESTIMATED SOURCES AND USES OF FUNDS" herein.

**Security for the Bonds.** The Bonds are equally and ratably payable from loan payments made by the Corporation to the Authority under the Loan Agreement. Scheduled loan payments are sufficient to pay the principal of and interest on the Bonds. Such payments constitute revenues of the Authority (the "**Revenues**" as defined herein) and are pledged for payment of the Bonds.

In accordance with the California Health Facility Construction Loan Insurance Law, Chapter 1 of Part 6 of Division 107 of the California Health and Safety Code (the "**Insurance Law**"), the Authority and the Corporation will enter into a Contract of Insurance (the "**Contract of Insurance**"), dated as of January 1, 2004, and a Regulatory Agreement, dated as of January 1, 2004 (the "**Regulatory Agreement**"), with the Office of Statewide Health Planning and Development of the State of California (the "**Office**"), pursuant to which the Office will insure the payment of the principal of and interest on the Bonds. If moneys are not available to pay the principal of or interest on the Bonds, the Office shall continue to make payments on the Bonds or shall instruct the Trustee to declare the principal of all Bonds then Outstanding and interest accrued thereon to be due and payable immediately and make payment of such principal and interest, and, upon the occurrence of certain events, shall notify the Treasurer of the State of California and the Treasurer shall issue debentures to the holders of the Bonds fully and unconditionally guaranteed by the State in an amount equal to the principal of and accrued interest on the Bonds. For a more detailed description of the obligation of the Office to insure the payment of the principal of and interest on the Bonds, including the circumstances under which the insurance may be canceled and the procedures with respect to insurance default, and the obligations of the Corporation pursuant to the Regulatory Agreement, see "CALIFORNIA HEALTH FACILITY CONSTRUCTION LOAN INSURANCE PROGRAM" herein and APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Contract of Insurance" and – "Regulatory Agreement".

A financial guaranty insurance policy (the "**Policy**") will be issued by Radian Asset Assurance Inc. (the "**Insurer**") simultaneously with the issuance and delivery of the Bonds. See "FINANCIAL GUARANTY INSURANCE."

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION, PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT

TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAVE ANY TAXING POWER.

**Risk Factors.** See the section of this Official Statement entitled "BONDHOLDERS' RISKS" for a discussion of special factors that should be considered, in addition to the other matters set forth herein, in considering the investment quality of the Bonds.

Brief descriptions of the Bonds, the sources of payment for the Bonds, the Authority, the Corporation, the Office, special risk factors, the Indenture and other information are included in this Official Statement. Such descriptions and information do not purport to be comprehensive or definitive. The descriptions herein of the Bonds, the Indenture, the insurance provided by the Office and other documents are qualified in their entirety by reference to each such document and the information with respect thereto included in the Bonds, such Indenture and other documents. Any statements made in this Official Statement involving matters of opinion or of estimates, whether or not so expressly stated, are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized.

## THE PROJECT

Net proceeds of the Bonds will be used to (a) finance improvements to an approximately 15,400 square foot building located at 1425 Corporate Center Parkway, in Santa Rosa, California (the "1425 Facility"), and (b) refinance loans obtained for the acquisition and renovation of real property and an approximately 23,000 square foot building thereon located at 1455 Corporate Center Parkway, in Santa Rosa, California (the "1455 Facility") and acquisition of an approximate 1.9-acre parcel of vacant land adjacent thereto. Proceeds will also be used for further renovation expenses of the 1455 Facility. These uses of proceeds are collectively referred to herein as (the "Project"). Both the 1425 Facility and the 1455 Facility are currently owned by the Corporation. The 1425 Facility is currently in use by the Corporation in connection with its provision of services to adults with developmental disabilities and upon completion of the renovation of the 1455 Facility, such facility will also be used for such services.

**Renovation of 1425 Facility.** In 1996, the California Health Facilities Financing Authority issued its \$1,665,000 Insured Revenue Bonds (the "1996 Bonds") and loaned the proceeds to the Corporation. The Corporation used the proceeds to refinance two existing interim loans which were originated to finance the acquisition of and renovation of the 1425 Facility. The 1996 Bonds are not being refunded. The Corporation will use a portion of Bond proceeds in the approximate amount of \$200,000 to complete additional improvements to the 1425 Facility. Work is expected to begin in January 2004 and end by March 2004. See "APPENDIX A – INFORMATION CONCERNING THE CORPORATION – Existing Facilities and Services".

**Acquisition and Renovation of 1455 Facility.** A portion of Bond proceeds will be used to refinance loans previously obtained for the acquisition of an approximately 23,000-square foot facility and the improvement thereof, and approximately 1.87 acres of undeveloped land, both of which are located immediately adjacent to the Corporation's existing headquarters at the 1425 Facility. In May 2003 the Corporation completed the purchase of the 1455 Facility with loans totaling approximately \$3.25 million. Remodeling expenses, which will also be reimbursed

with Bond proceeds, totaled \$600,000, and included approximately \$560,000 for improvements to the building which included approximately \$100,000 for seismic upgrades. The 1.87 acre parcel of adjacent land serves as a garden and outdoor area until such time as the Corporation needs the parcel for an additional facility to meet growth. See "APPENDIX A – INFORMATION CONCERNING THE CORPORATION – Existing Facilities and Services".

## THE BONDS

### General

The Bonds will be dated as of January 1, 2004, and will bear interest at the rates set forth on the cover page of this Official Statement, payable semi-annually on each August 1 and February 1, commencing August 1, 2004. Subject to the redemption provisions set forth below, the Bonds will be payable at the principal corporate trust office of the Trustee, in Seattle, Washington. Interest on the Bonds will be payable by check mailed by the Trustee on each interest payment date to the registered owners thereof as of the 15th day of the calendar month preceding the interest payment date (a "Record Date") at the address shown on the registration books maintained by the Trustee. Upon written request of any owner of at least \$1,000,000 aggregate principal amount of Bonds received by the Trustee before the Record Date, interest will be paid by wire transfer to an account within the United States. The Bonds are issuable only in fully registered form in denominations of \$5,000 or any integral multiple thereof. So long as the book-entry system is in effect with respect to the Bonds, payments of the principal of and premium (if any) and interest on the Bonds will be made by the Trustee to The Depository Trust Company ("DTC") or its nominee. See "APPENDIX G – DTC and the Book-Entry System" below.

### Redemption

**Optional Redemption.** The Bonds maturing on and after February 1, 2013, are subject to redemption prior to their stated maturity, at the option of the Authority (which option shall be exercised as directed by the Corporation), in whole, or in part by lot (in such amounts and of such maturities as may be specified by the Corporation, or if the Corporation fails to designate such maturities, in inverse order of maturity, and by lot within a maturity) on any date, upon forty-five days prior written notice to the Trustee from the Corporation, from any source or available funds, as a whole or in part (by lot) on any date, on or after February 1, 2012, at a redemption price equal to the principal amount thereof together with accrued interest thereon to the date fixed for redemption, at the following redemption prices (expressed as percentages of the principal amount of the Bonds to be redeemed), together with accrued interest thereon to the date fixed for redemption:

<u>Redemption Period</u>	<u>Redemption Price</u>
February 1, 2012, through January 31, 2013	102%
February 1, 2013, through January 31, 2014	101
February 1, 2014, and thereafter	100

**Special Redemption.** The Bonds are subject to redemption prior to their respective stated maturities at the option of the Authority (which option shall be exercised as directed by the Corporation) in whole on any date, or in part (in such amounts and of such maturities as may be specified by the Corporation, or if the Corporation fails to designate such maturities, in

inverse order of maturity, and by lot within a maturity) on any Interest Payment Date, upon forty-five (45) days prior written notice to the Trustee from the Corporation, from certain moneys derived from insurance or condemnation proceeds received with respect to the facilities of the Corporation, required to be deposited in the Special Redemption Account pursuant to the Regulatory Agreement, at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

**Mandatory Sinking Account Redemption.** The Bonds maturing February 1, 2022 and February 1, 2029 (the “Term Bonds”), are subject to mandatory redemption prior to their stated maturity in part by lot on each February 1 on and after February 1, 2019 and February 1, 2023 respectively, from mandatory sinking account payments required to be deposited under the Indenture at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium. The mandatory sinking account payments to be made are shown below under the caption “Debt Service Requirements.”

**Term Bonds of 2022**

Redemption Date (February 1)	Principal Amount
2019	\$210,000
2020	220,000
2021	230,000
2022 (maturity)	245,000

**Term Bonds of 2029**

Redemption Date (February 1)	Principal Amount
2023	\$255,000
2024	270,000
2025	280,000
2026	295,000
2027	310,000
2028	325,000
2029 (maturity)	345,000

**General Redemption Provisions.** Notice of redemption shall be mailed by first class mail to the Owners of any Bonds designated for redemption at their addresses appearing on the registration books of the Trustee, not less than 30 days nor more than 60 days prior to the redemption date. Failure of the Trustee to give notice to a Bondholder or any defect in such notice shall not affect the validity of the redemption of any of the Bonds for which notice of redemption was given in accordance with the Indenture.

Each notice of redemption shall state the redemption date, the place or places of redemption, the maturities, the date of issue of the Bonds, the CUSIP number (if any) of the maturity or maturities and, if less than all of any such maturity, the distinctive numbers (or inclusive ranges of distinctive numbers) of the Bonds of such maturity, to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become

due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a fully registered Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the Authority nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers.

From and after the redemption date, the Bonds so called for redemption shall cease to accrue interest or be entitled to any benefit or security under the Indenture, and the Holders of said Bonds shall have no rights in respect thereof except to receive payment of the Redemption Price plus accrued interest to the redemption date.

So long as the book-entry system is in effect with respect to the Bonds, all notices of redemption will be mailed to DTC (or its nominee), as the holder of the Bonds. See "APPENDIX G – DTC and the Book-Entry System" below.

## Debt Service Requirements

The following table sets forth for the annual debt service requirements for the Bonds. The principal payments due in 2019 through 2029 represent mandatory sinking account redemption payments.

<u>Year Ending (February 1)</u>	<u>Principal Payments</u>	<u>Interest</u>	<u>Total Debt Service</u>
2005	\$ 25,000	\$247,884.28	\$272,884.27
2006	75,000	228,316.26	303,316.25
2007	100,000	226,722.50	326,722.50
2008	140,000	224,222.50	364,222.50
2009	140,000	220,022.50	360,022.50
2010	145,000	215,647.50	360,647.50
2011	150,000	210,753.76	360,753.75
2012	155,000	205,316.26	360,316.25
2013	165,000	199,310.00	364,310.00
2014	170,000	192,710.00	362,710.00
2015	175,000	185,697.50	360,697.50
2016	185,000	178,260.00	363,260.00
2017	190,000	170,120.00	360,120.00
2018	200,000	161,570.00	361,570.00
2019	210,000	152,370.00	362,370.00
2020	220,000	141,870.00	361,870.00
2021	230,000	130,870.00	360,870.00
2022	245,000	119,370.00	364,370.00
2023	255,000	107,120.00	362,120.00
2024	270,000	93,987.50	363,987.50
2025	280,000	80,082.50	360,082.50
2026	295,000	65,662.50	360,662.50
2027	310,000	50,470.00	360,470.00
2028	325,000	34,505.00	359,505.00
2029	345,000	17,767.50	362,767.50

## SECURITY FOR THE BONDS

### California Health Facility Construction Loan Insurance Program

**Description.** The Corporation has received from the Office a conditional commitment for insurance of the Authority's payment of the principal of and the interest on the Bonds. The California Health Facility Construction Loan Insurance Program (the "Program") is authorized by Article XVI, Section 4 of the California Constitution and is provided for in the Insurance Law. The Program is operated by the Office, which has adopted regulations implementing the Program. Under the Insurance Law, the Office is currently authorized to insure health facility construction, improvement and expansion loans, as specified in the Insurance Law, to a total of not more than \$3,000,000,000. The insurance of payment of the principal of and interest on the Bonds is evidenced by the Contract of Insurance and the Regulatory Agreement, both of which will be entered into by the Office, the Authority and the Corporation, concurrently with the execution and delivery of the Bonds. The Regulatory Agreement sets out many of the financial covenants of the Corporation relating to, among other things, the maintenance of specified debt service coverage levels and the limitations on incurrence of additional indebtedness or disposition of assets by the Corporation. Prospective holders of the Bonds should note that the provisions of the Regulatory Agreement may be amended with the consent of the Office without the necessity of obtaining the consent of the holders of the Bonds or the holders of Parity Debt. See "Rights of the Office Under the Regulatory Agreement" herein and APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Regulatory Agreement" hereto.

The full amount of the principal of and interest, but no redemption premium, if any, on the Bonds is insured under the Program and is backed by the full faith and credit of the State. Reference is made to the official statement relating to the general obligation bonds most recently issued by the State (at [www.treasurer.ca.gov](http://www.treasurer.ca.gov), under the heading "Bond Information"), annual reports filed by the State with nationally recognized municipal securities information repositories and relating to the State's general obligation bonds for financial information relating to the general fund of the State and the biennial Actuarial and Asset Allocation Study for the Program, available upon request from the Office.

Insurance Law section 129050, subsection (a) requires that a loan must be secured by a first mortgage, first deed of trust, or priority lien on an interest of the borrower in real property and any other security agreement as the Office may require. For this purpose, the Corporation will grant a security interest in the Gross Revenues under the Loan Agreement and the Corporation will enter into a first Deed of Trust. See "SECURITY AND SOURCE OF PAYMENT FOR THE BONDS—Pledge Under the Indenture; Pledge of Gross Revenues" and "—Deed of Trust" herein and APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Deed of Trust" hereto.

The Program is financed by an application fee of 0.5 percent of the loan applied for, but not to exceed \$500 (Insurance Law section 129090), an inspection fee not in excess of 0.4 percent of the Corporation loan that is insured (Insurance Law section 129035), and an insurance premium due in full at closing not in excess of 3.0 percent of the total amount of principal and interest payable over the term of the loan. (Insurance Law section 129040). The fees and premiums charged are deposited in the Health Facility Construction Loan Insurance Fund (the "HFCLIF") that is established by the Insurance Law (sections 129010, subsection (g) and 129200) and used to defray administrative expenses of the Program, to cure defaults on loans and to pay principal of and interest on debentures issued by the Treasurer of the State in payment of insurance claims.

**Contestability.** Under Insurance Law section 129110, the Contract of Insurance is incontestable from the date of execution thereof, except in case of fraud or misrepresentation on the part of the lender.

**Cancellation.** The Insurance Law and the Contract of Insurance impose certain continuing obligations on the Corporation as a condition of insuring the Bonds but specify that the remedies for breach of these obligations shall not include withdrawal or cancellation of the insurance. The insurance provided by the Contract of Insurance will terminate in the event that the Bonds are defeased pursuant to the Indenture.

**Benefits Upon Default.** If there is an event of default as specified under the Indenture (“Event of Default”), the Trustee must notify the Office. The Trustee also must notify the Office if thirty days prior to an interest or principal payment date there are not sufficient available moneys held by the Trustee in the Revenue Fund (other than in the Bond Reserve Account) to make the next payment of principal or interest on the Bonds.

Pursuant to the Regulatory Agreement, if there is an Event of Default and the Trustee has notified the Office that available moneys in the Principal and Interest Accounts will be insufficient to pay in full the next succeeding payment of interest and/or principal when due, the Office shall cause a sufficient amount to be deposited in the Principal Account and/or Interest Account at least three Business Days prior to the date on which such payment is due. The money will come from the Bond Reserve Account held under the Indenture or from the HFCLIF. The obligation of the Corporation to repay any money advanced from the HFCLIF is secured by the Deed of Trust.

Following an Event of Default, the Office may either (i) continue to approve such transfers or make such payments described in the preceding paragraph as are necessary to provide for the timely payment of the principal of and interest on the Bonds, (ii) accept title to the Facilities from the Trustee upon foreclosure pursuant to the Deed of Trust or otherwise, (iii) accept an assignment of the security interest created under the Deed of Trust and of all claims under the Loan Agreement, or (iv) instruct the Trustee to declare the principal of all Bonds then outstanding and the interest due thereon to be immediately due and payable and make such payment from the HFCLIF. The Regulatory Agreement provides that, upon receipt by the Office of title to the Facilities or assignment of the security interest in the Deed of Trust and upon surrender of the Bonds to the Office, the Office shall notify the Treasurer of the State and the Treasurer shall issue debentures to the Trustee for the benefit of the holders of the Bonds so surrendered in an amount equal to the total face value of the outstanding principal of and accrued but unpaid interest on the Bonds, for the term and at the interest rate payable on the Bonds.

While the Office has not requested the issuance of and the Treasurer of the State has not issued any such debentures and while definitive procedures for their issuance have not been established, including procedures covering matters such as compliance with the provisions of the Code and the Treasury Regulations promulgated thereunder, the Office has all necessary power to establish such procedures, and it is expected that such procedures would be established and that interest on such debentures would not be includable in the gross income of the holders of the Bonds for purposes of federal income taxation and would be exempt under the law as in effect on the date hereof from State personal income taxes. Upon the occurrence of certain Events of Default under the Indenture, there is the possibility that the interest on the Bonds could become subject to federal income taxation. The Indenture provides

that there shall be no acceleration of the principal of and interest on the Bonds in the Event of Default under the Indenture without the consent of the Office. If the Bonds were declared taxable by the Internal Revenue Service (the "IRS") or another appropriate authority, thereby resulting in an Event of Default under the Indenture, and if the Office did not consent to an acceleration, the Bondholders would continue to receive interest payments, but those interest payments would not be excludable from gross income for federal income tax purposes. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—The Indenture—Events of Default and Acceleration of Maturities."

Under the Insurance Law, payments of principal of and interest on the Bonds or payments on the debentures would be made by the Office from the HFCLIF.

At the request of the Office, Milliman USA ("Milliman") completed a study in February of 2003 (the "2002 Actuarial Study") to evaluate, among other matters, (1) the reserve sufficiency of the HFCLIF as of June 30, 2002; and (2) the risk to the State General Fund from the California Health Facility Construction Loan Insurance Program. In the 2002 Actuarial Study, Milliman concluded that the HFCLIF, as of June 30, 2002, which at that time had approximately \$181 million, appeared to be sufficient, assuming "normal and expected" conditions, and that the HFCLIF should maintain a positive balance over a period of fifteen years. Even assuming abnormal and unexpected events, Milliman found that HFCLIF reserves would protect against any General Fund losses for eleven years. As of June 30, 2003, the principal amount of loans insured under the Insurance Program was approximately \$1,244,637,412 and the cash balance of the HFCLIF was approximately \$181,404,577. A copy of the 2002 Actuarial Study is available upon request to: Office of Statewide Health Planning and Development, Cal-Mortgage Loan Insurance Division, , 300 Capitol Mall, Suite 1500, Sacramento, CA 95814; Telephone: (916) 324-9957; email: cminsure@oshpd.ca.gov.

The moneys in the HFCLIF are continuously appropriated to pay obligations insured by the Office under the Insurance Law. Insurance Law section 129215 states: "The Health Facility Construction Loan Insurance Fund, established pursuant to Section 129200, shall be a trust fund and neither the fund nor the interest or other earnings generated by the fund shall be used for any purpose other than those purposes authorized by this chapter."

In the event that the Office fails to make any payments when due, the State Treasurer will be obligated to pay such amounts authorized to be appropriated to the holders of the debentures. As stated in Insurance Law section 129160, subsection (b), "In the event of a default, any debenture issued under this article shall be paid on a par with general obligation bonds issued by the state."

FOR A FURTHER DESCRIPTION OF THE PROVISIONS OF THE REGULATORY AGREEMENT AND THE CONTRACT OF INSURANCE, SEE APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS."

**Bankruptcy.** In the event of bankruptcy of the Corporation, the rights and remedies of the Holders of the Bonds are subject to various provisions of the Federal Bankruptcy Code. If the Corporation was to file a petition in bankruptcy, payments made by the Corporation during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Corporation's liquidation. Security interests and other liens granted to a Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other

lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of a Trustee. If the bankruptcy court so ordered, the property of the Corporation, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation despite any security interest of a Trustee therein. The rights of the Trustee to enforce its security interests and other liens it may have could be delayed during the pendency of the rehabilitation proceeding.

The Corporation could file a plan for the adjustment of its debts in any such proceeding, which plan could include provisions modifying or altering the rights of creditors generally or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and, with certain exceptions, discharges all claims against the debtor to the extent provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are conditions that the plan be feasible and that it shall have been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

Pursuant to the Indenture, the Office shall have the right to vote in the place and stead of all Holders of Bonds with respect to any plan of reorganization on any agreement for composition of creditors and on any assignment for the benefit of creditors.

In the event of bankruptcy of the Corporation, there is no assurance that certain covenants, including tax covenants, contained in the Loan Agreement or other documents would survive. Accordingly, a bankruptcy trustee could take action that would adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

***Rights of the Office Under the Regulatory Agreement.*** The Regulatory Agreement grants the Office extensive rights, including the right to attend and participate in all meetings of the Corporation's Boards of Directors. Additionally, the Regulatory Agreement prohibits the Corporation, without first obtaining the consent of the Office, from:

1. affiliating with, merging into, or consolidating with any individual, company, organization, partnership or other legal entity;
2. transferring cash or cash equivalents to any entity, including but not limited to a subsidiary or an affiliate of the Corporation, without first satisfying certain financial covenants;
3. selling, leasing, subleasing or otherwise disposing of all or portions of the real property subject to the Deed of Trust and, except in the ordinary course of business (which the Office in its sole discretion may define and, from time to time, redefine), buildings, improvements and tangible personal property located on such property;
4. acquiring by gift, purchase, construction, merger or consolidation any property or equipment, except in the ordinary course of business; and

5. entering into or terminating a contract to manage or operate all or substantially all of the Facilities with any individual, company, organization, partnership or other legal entity, including the Corporation's chief executive officers, chief financial officers and chief operations officers or all of those people who otherwise manage or operate all or substantially all of the Facilities, (the "**Management Agent**").

Additionally, upon the occurrence of an event of default under the Regulatory Agreement, the Deed of Trust, the Indenture or the Loan Agreement, the Office may assume or direct managerial or financial control over the Corporation. Under such circumstances, the Office may terminate and replace the existing Management Agent with a new Management Agent selected by the Office and may remove and replace a majority of the Corporation's Boards of Directors. See APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – The Regulatory Agreement."

### **Pledge Under the Indenture; Gross Revenues**

Under the Indenture, and subject to and for the purposes and on the terms and conditions set forth in the Indenture, all of the Revenues and any other amounts (including proceeds of the sale of the Bonds) held in any fund or account established pursuant to the Indenture (except the Rebate Fund) are pledged to secure the payment of the principal of, and interest on, the Bonds. "**Revenues**" is defined in the Indenture as all amounts received by the Authority or the Trustee pursuant or with respect to the Loan Agreement, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and regardless of source), prepayments, insurance proceeds, payments received pursuant to the Insurance Law, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to this Indenture, but not including any amounts paid to the Authority or the Trustee pursuant to rights of indemnification or any Additional Payments due to the Trustee.

The Authority assigns to the Trustee, for the benefit of the Bondholders, all of the right, title and interest of the Authority in the Loan Agreement, the Contract of Insurance and Regulatory Agreement. The Trustee shall be entitled to and shall be required to take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority under the Loan Agreement, the Contract of Insurance and the Regulatory Agreement.

Subject to the terms of the Loan Agreement, the Gross Revenues of the Corporation are pledged to the payment of Loan Repayments and to secure the payments of the principal of, and interest on the Bonds and Parity Debt. "**Gross Revenues**" is defined in the Regulatory Agreement as all revenues, income, receipts and money received in any period by the Corporation (other than donor-restricted gifts, grants, bequests, donations, contributions, and tax revenues), including, but without limiting the generality of the foregoing, the following: (i) gross revenues derived from its operation and possession of and pertaining to its properties; (ii) proceeds with respect to, arising from, or relating to its properties and derived from (1) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required by the terms of the Regulatory Agreement or other agreements with respect to the Indebtedness which the Corporation is permitted to incur pursuant to the terms of the Regulatory Agreement) to be used for purposes inconsistent with their use for the payment of Loan Repayments, Additional Payments or similar payments with respect to Parity Debt, (2) accounts, including but not limited to, accounts receivable, (3) securities and other investments, (4) inventory and intangible property, (5)

payment/reimbursement programs and agreements, and (6) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation, and (iii) rentals received from the lease of the Corporation's properties or space in its facilities.

The Corporation agrees that, so long as any Bonds remain outstanding under the Indenture, all of the Gross Revenues shall be deposited as soon as practicable upon receipt in a fund designated as the "**Gross Revenue Fund**" which the Corporation shall establish and maintain at such banking or financial institution or institutions located in the State of California as the Corporation shall designate for such purpose (the "**Depository Bank(s)**"). Subject only to the provisions of the Loan Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Corporation pledges and, to the extent permitted by law, grants a security interest to the Trustee in the Gross Revenue Fund to secure the payment of the principal of and interest on the Bonds and Parity Debt of the Corporation.

The pledge of Gross Revenues will be perfected to the extent that such security interest may be perfected by filing or notice under the Uniform Commercial Code of the State of California and may be subordinated to the interest and claims of others. Some examples of cases of subordination or prior claims are (i) statutory liens, (ii) rights arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any Federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any State or Federal court in the exercise of its equitable jurisdiction, (v) Federal or State of California bankruptcy laws that may affect the enforceability of the Indenture or pledge of Gross Revenues, (vi) rights of third parties in Gross Revenues converted to cash and not in the possession of the Trustee or the Depository Bank(s), (vii) provisions prohibiting the direct payment of amounts due to providers from Medi-Cal and other governmental programs to persons other than such providers; (viii) certain judicial decisions that cast doubt upon the right of the Trustee, in the event of the bankruptcy of the Corporation, to collect and retain accounts receivable from Medi-Cal and other governmental programs; (ix) commingling of proceeds of Gross Revenues with other moneys of the Corporation not subject to the security interest in the Gross Revenues; and (x) claims that might arise if appropriate financing or continuation statements are not filed in accordance with the California Uniform Commercial Code, as from time to time in effect. In addition, it may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Revenues (e.g., gifts, donations, certain insurance proceeds and grants) prior to actual receipt by the Corporation for deposit in the Gross Revenue Fund. Further, it is uncertain whether a security interest may be granted in Medi-Cal and other governmental payments. While providers are currently prohibited from assigning such receivables, it is unclear whether this prohibition will be interpreted so as to preclude the granting of security interests. See "Parity Debt and Other Indebtedness" herein and APPENDIX A—"INFORMATION CONCERNING THE CORPORATION—Summary Financial Information—Outstanding Debt."

### **Bond Reserve Account**

An amount equal to the Maximum Annual Bond Service requirement on the Bonds will be deposited in the Bond Reserve Account on the date of delivery of the Bonds. "**Maximum Annual Bond Service**" is defined in the Indenture as, as of any date of calculation, the sum of (a) the interest falling due on then Outstanding Bonds (assuming that all then Outstanding Serial Bonds are retired on their respective maturity dates and that all then Outstanding Term Bonds are retired at the times and in the amounts provided for by Mandatory Sinking Account Payments), (b) the principal amount of then Outstanding Serial Bonds falling due by their terms,

and (c) the aggregate amount of all Mandatory Sinking Account Payments required; all as computed for the Bond Year in which such sum shall be largest. The Bond Reserve Account is required to be maintained in an amount equal to the Bond Reserve Account Requirement and the Loan Agreement requires the Corporation to make up any deficiencies therein within one year. The Bond Reserve Account Requirement is defined in the Indenture to be, as of any date of calculation, an amount equal to Maximum Annual Bond Service on all Bonds Outstanding as of such date or such larger amount as may be established as the Bond Reserve Account Requirement by any Supplemental Indenture. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Indenture.”

### **Deed of Trust**

The Corporation will execute the Deed of Trust pursuant to which the Corporation will grant to the trustee thereunder, as trustee for the benefit of the Office and the Trustee, as trustee for the holders of the Bonds, a first lien on and security interest in the Facilities, subject to Permitted Encumbrances and subject to the right of the Corporation (with the prior consent of the Office) to remove property from the lien on and security interest in the Deed of Trust, as security for the performance of the Corporation's obligations under the Loan Agreement, the Deed of Trust, the Regulatory Agreement and the Contract of Insurance and with respect to the Bonds and any Parity Debt. For as long as the Office is obligated under the Contract of Insurance, all rights under the Deed of Trust shall be exercised solely by the Office. With the consent of the Office, the Deed of Trust may be amended, subordinated or terminated at any time without the necessity of obtaining the consent of the Trustee, the Authority, the holders of the Bonds or the holders of Parity Debt. An ALTA title insurance policy on the Facilities in an amount not less than the principal amount of the Bonds will be delivered at the time of issuance of the Bonds. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS—Deed of Trust.”

FOR A FURTHER DESCRIPTION OF THE PROVISIONS OF THE LOAN AGREEMENT, THE INDENTURE AND THE DEED OF TRUST, SEE APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS.”

### **Rate Covenant**

Under the Loan Agreement and the Regulatory Agreement, the Corporation is required to fix, charge and collect rates, fees and charges which are reasonably projected to be sufficient in each year to produce a debt service coverage of at least 1.25 times. For information relating to the rate covenant, See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Loan Agreement - Rates and Charges; Debt Coverage” and “ - Events of Default; Remedies Upon Default” and “ - Regulatory Agreement - Rates and Charges; Debt Coverage” and - “Loan Default Events; Remedies on Default.” The Bonds will continue to be insured by the Office in the manner described above even if an Event of Default were to occur.

### **Parity Debt and Other Indebtedness**

As of December 1, 2003, the Corporation had no outstanding long-term debt other than the 1996 Bonds and certain notes. See APPENDIX A – “INFORMATION CONCERNING THE CORPORATION.”

The Corporation may incur other obligations or indebtedness, in some cases on a parity basis with the obligations of the Corporation under the Loan Agreement, subject to the

conditions set forth in the Regulatory Agreement with respect to the Bonds. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS - Regulatory Agreement - Limitation on Indebtedness - Parity Debt.”

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS (“ABAG”) OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION, PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAVE ANY TAXING POWER.

## **FINANCIAL GUARANTY INSURANCE**

### **Description of Financial Guaranty Insurance Policy**

A financial guaranty insurance policy (the “**Policy**”) will be issued by Radian Asset Assurance Inc. (the “**Insurer**”) simultaneously with the issuance and delivery of the Bonds. The Policy is noncancelable during its term and provides for the prompt payment of principal of and interest on the “**Obligations**” (as defined in the Policy”) to the extent that U.S. Bank National Association, Seattle, Washington, as Trustee (the “**Trustee**”), has not received sufficient funds for payment of the Obligations on the “**due date**.” The Insurer is obligated to make the required payment on the later of the due date or the first business day after which the Insurer has received notice from The Bank of New York, as Insurance Trustee (the “**Insurance Trustee**”), that amounts due on the Obligations have not been paid. Under the Policy, the “**due date**” of the Obligations, when referring to the payment of principal, means the stated maturity date thereof or the date on which payment of principal is due by reason of mandatory sinking fund payments and does not mean any earlier date on which payment is due by reason of any call for redemption, acceleration, or other advancement of maturity, other than in the discretion of the Insurer. With respect to interest on the Obligations, the “**due date**” means the stated date for payment of interest. The Policy guarantees reimbursement of any recovery of any such payment from a Holder or the Trustee pursuant to a final judgment by any court of competent jurisdiction holding that such payment constituted a voidable preference within the meaning of any applicable bankruptcy law.

Under the Policy, “**Obligations**” is defined as the payment of principal and interest regularly scheduled to be paid on the Bonds, which shall have become due for payment but shall be unpaid on the stated date for payment of interest, but does not include any premium payable with respect to the Bonds, nor any redemption (except mandatory sinking fund redemption), acceleration or other advancement of maturity. “**Bonds**” is defined in the Policy as, before any issuance of debentures (as described above under the caption “**SECURITY FOR THE BONDS - California Health Facility Construction Loan Insurance Program**”), the Authority’s

Insured Health Facility Revenue Bonds (Becoming Independent), Series A and, after the issuance of such debentures, the debentures.

Upon the occurrence and continuance of an Event of Default, the Insurer, may, in its discretion, direct the acceleration of the Obligations at a price equal to the principal amount thereof plus accrued interest, or the Insurer may elect to continue to pay principal and interest on the originally scheduled due dates of the Obligations. For specific information on the coverage provided, reference should be made to the Policy that has been reproduced in specimen form in Appendix H hereto. The Policy does not insure against nonpayment of principal or interest on the Obligations due to the insolvency, misconduct or negligence of the Trustee. The Policy does not insure the payment of any redemption premium.

**Description of Insurer.** Radian Asset Assurance Inc. is a financial guaranty insurance company, regulated by the Insurance Department of the State of New York and licensed to do business in all 50 states and the District of Columbia. The Insurer was formerly known as "Asset Guaranty Insurance Company". The Insurer changed its corporate name to Radian Asset Assurance Inc. The Insurer has received approval to use its new corporate name in all jurisdictions where it is licensed to do business. As of September 30, 2003, the Insurer had total shareholders' equity of approximately \$550,924,000 (unaudited) and total assets of approximately \$918,580,000 (unaudited). The financial information relating to the Insurer presented in this Official Statement was prepared internally by the Insurer, based on generally accepted accounting principles, and has not been audited by independent certified public accountants. The address of the Insurer's administrative office is 335 Madison Avenue, New York, New York 10017, and its telephone number is 212-983-5859.

The Insurer has filed the following information with entities designated as Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934:

(i) the Insurer's consolidated financial statements as of December 31, 2002 and 2001 prepared in accordance with generally accepted accounting principles and an independent auditor's report relating to those statements;

(ii) the Insurer's quarterly unaudited consolidated balance sheet as of March 31, 2003 and unaudited consolidated statement of operations for the three month period then ended, prepared in accordance with generally accepted accounting principles;

(iii) the Insurer's quarterly unaudited consolidated balance sheet as of June 30, 2003 and unaudited consolidated statement of operations for the six month period then ended, prepared in accordance with generally accepted accounting principles; and,

(iv) the Insurer's quarterly unaudited consolidated balance sheet as of September 30, 2003 and unaudited consolidated statement of operations for the nine month period then ended, prepared in accordance with generally accepted accounting principles.

The Insurer is a wholly-owned indirect subsidiary of Radian Group Inc. ("Radian"), a publicly-owned corporation with its shares listed on the New York Stock Exchange (symbol "RDN"). Radian is a leading credit enhancement provider to the global financial and capital markets, headquartered in Philadelphia. Radian's subsidiaries provide products and services through three business lines: financial guaranty, mortgage insurance and mortgage services. None of Radian, Radian's other subsidiaries or any of Radian's investors is obligated to pay the debts of

or claims against the Insurer. A complete copy of the December 31, 2002 audited consolidated financial statements and additional information of Radian, together with the accompanying report of independent auditors, is available from the Insurer upon written request.

Neither the Insurer nor any of its affiliates makes any representation regarding the Bonds or the advisability of purchasing the Bonds and makes no representation regarding this Official Statement other than as to the information supplied by the Insurer and presented under the heading "FINANCIAL GUARANTY INSURANCE" and as set forth in Appendix H of this Official Statement. The Insurer's role is limited to providing the coverage set forth in the Policy. In accordance with applicable law, in the event the insurer becomes insolvent, any claims arising under this policy are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 15.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

### ESTIMATED SOURCES AND USES OF FUNDS

The following table sets forth the estimated sources and uses of funds related to the Bonds.

#### Sources of Funds:

Principal Amount of Bonds	\$5,000,000.00
Less Original Issue Discount	(13,697.85)
Accrued Interest	12,712.01
Contribution from Corporation	<u>401,000.00</u>
Total Sources of Funds	\$5,400,014.16

#### Uses of Funds:

Deposit to Project Fund	\$4,488,376.00
Deposit to Bond Reserve Account <sup>(1)</sup>	364,370.00
Deposit to Costs of Issuance Fund <sup>(2)</sup>	477,056.15
Underwriter's Discount	57,500.00
Accrued Interest	<u>12,712.01</u>
Total Uses of Funds	\$5,400,014.16

(1) Represents an amount equal to the Maximum Annual Bond Service on the Bonds.

(2) Includes legal costs, accounting costs, third-party consultant costs, printing costs, insurance premium and fees, rating agency fees, Trustee fees, Authority fees, and other miscellaneous costs of issuance of the Bonds.

### THE CORPORATION

The Corporation is a California nonprofit public benefit corporation as described in Section 501(c)(3) of the Code and is exempt from income taxation pursuant to Section 501(a) of the Code. The Corporation was incorporated in 1980 and provides vocational and functional living services for people with development disabilities living in Sonoma, Napa and Solano counties. The corporate headquarters are currently located at 1425 Corporate Center Parkway, Santa Rosa, California.

For more detailed information concerning the history, governance, organization, facilities, operations, and financial performance of the Corporation, see APPENDIX A - "INFORMATION CONCERNING THE CORPORATION" and APPENDIX B - "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION."

The Corporation, founded in 1980, is a nonprofit public benefit corporation governed by a Board of Directors. The Corporation's primary purpose is to provide vocational and functional living services for people with development disabilities living in Sonoma, Napa and Solano counties.

## **THE AUTHORITY**

The Authority is a joint powers agency duly organized and existing under the laws of the State of California. The Authority was formed pursuant to the terms of a Joint Powers Agreement, dated as of April 1, 1990, as amended as of September 18, 1990 and June 9, 1992, and the Act in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of Authority members with purposes serving the public interest.

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO, DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY OR ABAG HAS ANY TAXING POWER.

## **THE TRUSTEE**

The Corporation, with the consent of the Authority, has appointed U.S. Bank National Association, a national banking association organized under the laws of the United States, to serve as Trustee for the Bonds. The Trustee is to carry out those duties assignable to it under the Indenture. Except for the contents of this section, the Trustee has not reviewed or participated in the preparation of this Official Statement and does not assume any responsibility for the nature, completeness, contents or accuracy of the Official Statement.

Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application by the issuer of any of the Bonds authenticated or delivered pursuant to the

Indenture or for the use or application of the proceeds of such Bonds by the Authority or the Corporation. The Trustee has not evaluated the risks, benefits, or propriety of any investment in the Bonds and makes no representation, and has reached no conclusions, regarding the value or condition of any assets pledged or assigned as security for the Bonds, the technical or financial feasibility of the Project, or the investment quality of the Bonds, about all of which the Trustee expresses no opinion and expressly disclaims the expertise to evaluate.

## **BONDHOLDERS' RISKS**

*The purchase of the Bonds involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Bonds should make an independent evaluation of all the information presented in this Official Statement to make an informed investment decision. Certain of these risks are described below. However, the following does not purport to be an exclusive listing of risks and other considerations that may be relevant to investing in the Bonds, and the order in which the following information is presented is not intended to reflect the relative importance of any such risks.*

### **General**

Except as noted herein under "SECURITY FOR THE BONDS – Health Facility Construction Loan Insurance Program," the Bonds are payable solely from Revenues, which consist primarily of Loan Repayments to be made by the Corporation pursuant to the Loan Agreement. No representation or assurance can be made that revenues will be realized by the Corporation in amounts sufficient to make Loan Repayments and thus to pay principal and interest payments on the Bonds. The Authority's obligation to make principal and interest payments on the Bonds is solely from Revenues provided by the Corporation under the Loan Agreement and from certain interest earnings available under the Indenture.

Payment of the principal and interest payments on the Bonds will be insured by the Office. The Authority has no control, financial or otherwise, over the Office. If the Corporation were to default in making Loan Repayments under the Loan Agreement and the Office were to default on its insurance obligations under the Contract of Insurance, there could be insufficient moneys available to pay the holders of the Bonds.

The Corporation is significantly dependent upon the successful operation of its programs, and the availability of State funds, to meet its obligations with respect to the Bonds. Future economic and other conditions, including demand for treatment services, the ability of the Corporation to provide the services required by clients, economic developments in the Corporation's service area, competition, government funding of treatment programs, rates, costs, demographic changes, legislation, governmental regulations, malpractice claims and other litigation may adversely affect revenues, and consequently, payment of principal, premium, if any, and interest on the Bonds. There can be no assurance given that revenues of the Corporation and/or utilization of its facilities will not decrease.

For information concerning the Corporation, its operations and management, see APPENDIX A – "INFORMATION CONCERNING THE CORPORATION." See also APPENDIX B – "AUDITED FINANCIAL STATEMENTS OF THE CORPORATION."

## **Additional Debt**

The Regulatory Agreement permits the issuance of additional indebtedness secured equally and ratably with the Bonds provided certain conditions are met. See APPENDIX C – “SUMMARY OF PRINCIPAL LEGAL DOCUMENTS – Regulatory Agreement – Limitations on Indebtedness” and “ – Parity Debt.” While the Regulatory Agreement permits the Corporation to incur such parity debt only if certain financial and other requirements are met, such indebtedness would increase debt service requirements, reduce Bondholders’ interest in the collateral securing the Bonds and could adversely affect debt service coverage on the Bonds. The Corporation currently has no plans for substantial capital expansions other than the facilities to be financed with proceeds of the Bonds.

## **Dependence Upon Governmental Funding**

A significant portion of the Corporation's services are provided to persons eligible for certain benefits that are funded under various State, and to a lesser extent, Federal and County, health programs. As a result, the success of the Corporation's operations is significantly dependent upon continued funding of these programs by the State, County and Federal governments, and upon the continued existence of provider contracts for such programs with counties or other governmental entities.

The State of California is currently experiencing severe financial and budgetary stress, which resulted in an approximate \$38 billion State General Fund deficit for fiscal year 2003-04 at the time the State budget was being prepared. The enacted 2002-03 State Budget includes significant cutbacks affecting local agencies and has had an impact on the budget and financial planning for cities, counties and other agencies throughout the State. A State General Fund budget deficit is expected to arise in one or more future years and the potential impact of future budget legislation could be material to the City. The State of California from time to time has experienced deficits in its operations and the future of all health services programs that depend upon funding from the State is uncertain. It is also possible that such programs may be the subject of cost reduction and payment experimentation, including potential changes involving managed care. As the Corporation's ability to make Loan Repayments is significantly dependent upon the continued funding of its programs by the State, any reduction in funding for various health programs currently funded by the State could have a negative impact on the ability of the Corporation to meet its obligations on the Bonds. Management of the Corporation currently is of the opinion that continued State funding will not be significantly impaired by the State's deficit issues since funding is pursuant to legislation previously passed and implemented, however, the Corporation and its management is unable to establish any certainty with regard to State funding or to predict what changes could occur in the future.

The Corporation receives a significant portion of its revenues from cost-based reimbursement and fee-for-service-based contracts with various departments of social services, in certain California counties. The level of fiscal strength of County governments in California varies widely and from time to time counties experience significant reductions in funding, including funding for the provision of health services. Any reduction in funding from County social service departments may have a negative effect on the Corporation's ability to successfully negotiate provider contracts to gain such funding. The absence of such contracts may have a serious negative impact on the Corporation's operating and financial performance.

For a historical percentage breakdown of the Corporation's dependence upon various governmental funding sources see APPENDIX A – "INFORMATION CONCERNING THE CORPORATION – Sources of Revenue."

### **State Rating**

Currently the State of California's Cal-Mortgage Loan Guarantee Program is rated "BBB" by Standard & Poor's. Standard & Poor's is the only rating agency which rates the Cal-Mortgage program. The Cal-Mortgage program is given the same rating by Standard & Poor's, as the State's general obligation bond rating. Moody's Investors Service currently rates the State of California's general obligation debt as "Baa1" which is a reduction which occurred in December 2003 from "A3". Fitch Rating Service maintains an "A" rating for the State's general obligations. The Standard & Poor's rating reflects a downgrading of the State's rating which occurred in July 2003 and which was primarily due to the budget deficit and fiscal conditions of the State. State ratings information is available on the internet at <http://www.treasurer.ca.gov/ratings/current.htm>. It is impossible to forecast what the individual rating agencies will do with respect to their ratings for the State. No assurance can be given that the State's rating, or the rating assigned to Cal-Mortgage financings, will not change adversely in the future.

### **Licensing, Surveys, Facility Inspections and Audits**

Health care centers, including those of the Corporation, are subject to numerous legal, regulatory, professional and private licensing and certification requirements. Renewal and continuance of certain of these licenses and certifications are based on inspections, surveys, audits, or other reviews, some of which may require or include affirmative action or response by the Corporation. These activities generally are conducted in the normal course of business of health care treatment centers. Nevertheless, an adverse decision could result in a loss or reduction in the Corporation's scope of licensure or certification, or could reduce the payment received or require repayment by the Corporation of amounts previously remitted.

Management of the Corporation currently anticipates no difficulty renewing or continuing currently held licenses or certifications of the Corporation, nor does it anticipate a reduction in revenues resulting from such events that would materially adversely affect the operations or financial condition of the Corporation. Nevertheless, actions in any of these areas could result in the loss in utilization or revenues, or the Corporation's ability to operate all or a portion of its treatment centers, and, consequently, could adversely affect the Corporation's ability to make Loan Repayments in connection with the Bonds.

### **Tax-Exempt Status of the Corporation**

***Covenants to Maintain Exclusion from Federal Gross Income of Interest on the Bonds.*** The Code imposes a number of requirements that must be satisfied for interest with respect to State and local obligations, such as the Bonds, to be excludable from gross income for Federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment of bond proceeds prior to expenditure, a requirement that certain arbitrage earned on the investment of bond proceeds be paid periodically to the United States, and a requirement that an information report be filed with the Internal Revenue Service. The Authority and the Corporation have covenanted in certain of the documents referred to herein that they will comply with such requirements. Failure to comply with any of

these covenants may result in the treatment of the interest paid to holders of the Bonds as included in Federal gross income, retroactive to the date of delivery of the Bonds.

***Maintenance of the Tax-Exempt Status of the Corporation.*** The tax-exempt status of the Bonds presently depends upon the Corporation's maintenance of its status as an organization described in section 501(c)(3) of the Code. The maintenance of such status is contingent on compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including its operation for charitable and educational purposes and its avoidance of transactions which may cause its assets to inure to the benefit of private individuals.

The IRS has recently reorganized its activities relating to tax exempt bonds with the stated aim of increasing the level of audit coverage. In addition, the Federal government has unveiled several proposals designed to increase compliance with the tax laws by tax-exempt organizations including new rules for information reporting and an excise tax that would apply to excess benefits provided to officers and other insiders. Currently, the only penalty available to the IRS under the Code is the revocation of tax-exempt status. Although the United States Treasury has suggested to Congress that Congress adopt less onerous sanctions, Congress has not done so. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit healthcare corporations, it could do so more frequently in the future. It is possible that loss of tax-exempt status by the Corporation could result in loss of tax exemption with respect to the Bonds and of other tax-exempt debt of the Corporation, and defaults in covenants with respect to the Bonds and other related tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Corporation and the value of the Bonds.

***State Income Tax Exemption.*** The State of California has not been as active as the IRS in scrutinizing the income tax exemption of public benefit corporations. However, the loss by the Corporation of Federal tax exemption might trigger a challenge to the State tax exemption of the Corporation. Depending on the circumstances, such event could be adverse and material.

In recent years, State, County, and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt corporations with respect to their real property tax exemptions. In some cases, particularly where such authorities are dissatisfied with the amount of services provided to the indigent, the real property tax-exempt status of the tax-exempt corporation has been questioned. Although the real property tax exemption of the Corporation has not, to the knowledge of the management of the Corporation, been investigated by such authorities, an investigation or audit could lead to a challenge that could ultimately affect the real property tax exemption of the Corporation.

### **Conditional Use of Facilities**

Operation of the programs of the Corporation may be in facilities that are subject to revocation of conditional use permits or zoning specifications. Loss of any number of its use permits, changes in local land use regulations, or future legislative changes affecting land use policy could cause significant detriment to the Corporation's ability to operate its programs.

## **Factors That Could Affect the Validity or Value of the Lien Against the Corporation's Revenues, and the Enforceability of the Loan Agreement**

The ability of the Trustee to enforce the agreements set forth in the Loan Agreement may be limited by laws relating to bankruptcy (see "Bankruptcy" directly following), insolvency, reorganization or moratorium and by other similar laws affecting creditors rights. In addition, the Trustee's ability to enforce such agreements will depend upon the exercise of various remedies specified by such documents which may in many instances require judicial actions that are often subject to discretion and delay or that otherwise may not be readily available or be limited.

The various legal opinions to be delivered concurrently with the execution and delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by State and Federal laws, rulings and decisions affecting remedies, and by bankruptcy, reorganization or other laws of general application affecting the enforcement of creditors' rights.

### **Bankruptcy**

The rights and remedies of the Holders of the Bonds are subject to various provisions of the Federal Bankruptcy Code. If the Corporation were to file a petition for relief under Chapter 11 of the Bankruptcy Code, its revenues and certain of its accounts receivable and other property created or otherwise acquired after the filing of such petition and for up to 90 days prior to the filing of such petition may not be subject to the security interest created under the Deed of Trust for the benefit of the Trustee and the Authority. The filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Corporation and its property, and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property. If the bankruptcy court so ordered, the property of the Corporation, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Corporation despite the security interest of the Trustee therein. While the Bankruptcy Code requires that the interest of the Trustee as lien holder be adequately protected before the collateral may be used by the Corporation, such protection could take the form of a replacement lien on assets of the Corporation acquired or created after the bankruptcy petition is instituted. The rights of the Trustee to enforce liens and security interests against the Corporation's assets, including the Corporation's Gross Revenues, could be delayed during the pendency of the rehabilitation proceedings.

The Corporation could file a plan for the adjustment of its debts in any such proceeding which could include provisions modifying or altering the rights of creditors generally, or any class of them, secured or unsecured. The plan, when confirmed by a court, binds all creditors who had notice or knowledge of the plan and discharges all claims against the debtor provided for in the plan. No plan may be confirmed unless certain conditions are met, among which are that the plan is in the best interests of creditors, is feasible and has been accepted by each class of claims impaired thereunder. Each class of claims has accepted the plan if at least two-thirds in dollar amount and more than one-half in number of the class cast votes in its favor. Even if the plan is not so accepted, it may be confirmed if the court finds that the plan is fair and equitable with respect to each class of non-accepting creditors impaired thereunder and does not discriminate unfairly.

## **Affiliation, Merger, Acquisition and Divestiture**

The Corporation may from time to time evaluate and pursue potential merger, affiliation and acquisition candidates as part of its overall strategic planning and development process. In addition, as part of its ongoing planning and property management functions, the Corporation reviews the use, compatibility and business viability of the Corporation's operations and may, from time to time, pursue changes in the uses of such facilities and operations. Discussion with respect to affiliation, merger, acquisition, disposition or change in use are held on an intermittent and confidential basis with other parties. As a result, it is possible that the organization and assets and other facilities which currently comprise the Corporation may change from time to time, subject to the restrictions imposed in the Loan Agreement and by the Office in the Regulatory Agreement.

## **Claims and Insurance Coverage**

In recent years, the number of malpractice and general liability suits and the dollar amounts of damage recoveries have increased nationwide, resulting in substantial increases in malpractice insurance premiums. Malpractice and other actions alleging wrongful conduct and seeking punitive damages are often filed against providers such as the Corporation. Insurance does not provide coverage for judgments for punitive damages. While the Corporation currently carries malpractice and general liability insurance, which the Corporation's management considers adequate, the Corporation is unable to predict the availability or cost of such insurance in the future.

Litigation may also arise from the corporate and business activities of the Corporation including from its status as an employer. Many of these risks would be covered by insurance, but some might not be. For example, certain antitrust claims, claims arising from wrongful termination, claims arising from physical harm or assault, including sexual molestation, business disputes and workers' compensation claims may not be covered by insurance or other sources and may, in whole or in part, be a liability of the Corporation if determined or settled adversely.

The Corporation currently has comprehensive general liability insurance coverage through commercial insurers with a maximum policy amount (inclusive of excess coverage) of up to \$1 million per occurrence with an annual aggregate limitation of \$2 million. Additionally, the Corporation has social service professional liability insurance coverage through commercial insurers with a maximum policy amount of up to \$1 million per occurrence/\$2 million aggregate, plus umbrella coverage to \$5 million. While the Corporation's management considers such insurance coverage to be adequate, no assurances can be given that the maintenance of such coverage will continue to be financially feasible for the Corporation in the future. The Corporation's insurance does not cover punitive damages. The Corporation has never had to pay any punitive damage claim.

According to the Seismic Safety Commission of the State of California, the State is mapped into seismic hazard zones 3 and 4. Seismic hazard zones account for geographical variations in the expected levels of earthquake ground shaking and are based on the historical records of earthquakes and the location of known earthquake faults. Several earthquake faults run through the County. Local building codes take into account the likelihood of ground shaking and are intended to provide safety to the building occupants. In the event of an earthquake, buildings five stories or more are expected to suffer the greatest damage in the location area. The Corporation's facilities are generally older buildings and none are more than two stories; however, there can be no assurance that the occurrence of a significant seismic event in any

area in which the Corporation operates would not have a material adverse effect on the facilities or the operations of the Corporation.

### **Environmental Laws and Regulations**

Facilities such as those operated by the Corporation are subject to certain Federal, State and local environmental and occupational health and safety laws and regulations which address, among other things, operations of facilities and properties owned or operated by organizations similar to the Corporation. These regulatory requirements include: air and water quality control requirements, waste management requirements, specific regulatory requirements applicable to asbestos, polychlorinated biphenyls, and radioactive substances, requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the facilities, requirements for training employees in the proper handling and management of hazardous materials and wastes, and other requirements.

In their role as owners and/or operators of properties or facilities, organizations similar to the Corporation may be subject to liability for investigating and remedying any hazardous substances which are located on the property, including any such substances that may have migrated off of the property. Typical operations include, but are not limited to, in various combinations, the handling, use, storage, transportation, disposal and/or discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants, or contaminants. As such, operations are particularly susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment, may interrupt operations and/or increase their cost; may result in legal liability, damages, injunctions or fines, and may result in investigations, administrative proceedings, penalties or other governmental agency actions. There can be no assurance that the Corporation will not encounter such risks in the future, and such risks may result in material adverse consequences to the operations or financial condition of the Corporation.

At the present time, management of the Corporation is not aware of any pending or threatened claim, investigation or enforcement action regarding such environmental issues which, if determined adversely to the Corporation, would have material adverse consequences.

### **Marketability of the Bonds**

The Underwriter does not intend to make a secondary market for investments in the Bonds and there can be no assurance that there will be a secondary market for the Bonds. The absence of such a market for the Bonds could result in investors not being able to resell the Bonds should they need to or wish to do so.

### **Other Factors**

Additional factors which may affect future operations, and therefore revenues, of the Corporation include, but are not limited to, the following:

(i) A change in the Federal income tax or other Federal, State or local laws to require the Corporation to render substantially greater services without charge or at a reduced charge;

(ii) Employee strikes, other adverse labor actions or disputes with members of the professional staff;

(iii) Reinstatement or establishment of mandatory wage or price controls;

(iv) Natural disasters, including floods and earthquakes, which could damage the Corporation's clinics or otherwise impair the operations of the Corporation and the generation of revenues from the Corporation's clinics; and,

(v) Unfavorable trends in the national, State or local economy or political climate which in turn may adversely affect the health care programs funded by the Federal, State and local governments; unfavorable changes in current Federal and State legislation and local ordinances which currently mandate or provide for health programs; increased governmental regulations which could adversely affect the Corporation's ability to provide the level of services forecasted; demographic changes which may affect the Corporation's ability to deliver services to clients; governmental changes or reductions in rates and other methods of reimbursement of the Corporation for services delivered; loss of confidence in the Corporation's ability to deliver quality services by State or County officials, health care professionals and the public which would adversely affect the level of revenue forecasted; increased malpractice and other claims; competition by other for-profit or nonprofit entities which desire to contract with local government for the provision of health care services (see also APPENDIX A – "INFORMATION CONCERNING THE CORPORATION – Competition"); and unforeseen major repairs of the Corporation's properties or increases in insurance or other operating costs without the Corporation obtaining corresponding increases in revenues.

## **ABSENCE OF MATERIAL LITIGATION**

### **The Authority**

There is no litigation pending or, to the best knowledge of the Authority, threatened, seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds or any proceeding of the Authority taken with respect to the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the Bonds, or existence or powers of the Authority, or the authority of the Authority to enter into any document relating to the Indenture or the Bonds.

### **The Corporation**

The Corporation knows of no pending or threatened litigation against the Corporation seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, or in any way contesting or affecting the validity of the Bonds, the existence or powers of the Corporation, or the authority of the Corporation to enter into the Loan Agreement or any other documents executed by the Corporation in connection with the issuance of the Bonds.

## **TAX MATTERS**

In the opinion of Quint & Thimmig LLP, San Francisco, California, Bond Counsel, subject, however to the qualifications set forth below, under existing law, the interest on the Bonds is excluded from gross income for Federal income tax purposes and such interest is not an item of tax preference for purposes of the Federal alternative minimum tax imposed on individuals and corporations, provided, however, that, for the purpose of comparing the alternative minimum imposed on corporations (as defined for Federal income tax purposes), such interest is taken into account in determining certain income and earnings.

## **APPROVAL OF LEGALITY**

Legal matters incident to the delivery of the Bonds are subject to the approving opinion of Quint & Thimmig, LLP, San Francisco, California, as Bond Counsel. Certain legal matters will be passed upon for the Authority Nixon Peabody LLP, San Francisco, California, as counsel to the Authority and by Jones Hall, A Professional Law Corporation, San Francisco, California as Disclosure Counsel. Certain legal matters will be passed upon for the Corporation by David S. Cooper, Esq., Santa Rosa, California, Counsel to the Corporation. Certain legal matters will be passed upon for the Office by its staff counsel. Certain fees payable to Bond Counsel and Disclosure Counsel are contingent upon the sale and delivery of the Bonds.

## **RATING**

Standard & Poor's Rating Services ("S&P") has assigned its municipal bond rating of "AA" to the Bonds with the understanding that, upon delivery of the Bonds, payment of the principal of and interest on the Bonds will be insured by the Insurer. Any explanation of the significance of such rating may only be obtained from S&P. The Corporation furnished to the rating agency certain information and material concerning the Bonds and itself and the Insurer obtained certain information on the finances of the State of California. 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 rating mentioned above will remain in effect for any given period of time or that it might not be lowered or withdrawn entirely by rating agency, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Bonds.

## **UNDERWRITING**

The Bonds are being purchased by Altura, Nelson & Co., Incorporated (the "Underwriter") at a purchase price of \$4,928,802.15 (representing the aggregate principal amount of the Bonds, less an original issue discount in the amount of \$13,697.85 less an Underwriter's discount in the amount of \$57,500.00), plus accrued interest. The Bond Purchase Contract provides that the Underwriter will purchase all of the Bonds, if any are purchased, and contains the agreement of the Corporation to indemnify the Underwriter against certain liabilities to the extent permitted by law. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Contract.

The Underwriter may offer and sell the Bonds to certain dealers and others at prices or yields different from the prices or yields stated on the cover page to this Official Statement. The offering prices or yields may be changed from time to time without notice by the Underwriter.

The Underwriter is neither involved with the investment of funds for the Authority or the Corporation nor is the Underwriter receiving any fees in connection therewith.

## **FINANCIAL STATEMENTS**

The audited financial statements of the Corporation for fiscal years ending June 30, 2003 and 2002 are included in "APPENDIX B" have been audited by Pisenti & Brinker LLP, Certified Public Accountants and Consultants, Petaluma, California. Such financial statements are included herein in reliance upon the authority of such firm as experts in giving such reports. Investors should review these financial statements prior to purchasing the Bonds.

## **FEASIBILITY STUDY**

As part of the Corporation's applications to the Office for insurance, a financial feasibility study, dated July 24, 2003 was prepared for the Corporation by Hendrickson Consulting, Sausalito, California (the "Feasibility Study"). The Feasibility Study was based on certain assumptions, as outlined therein. The purpose of the Feasibility Study was to analyze the Corporation's ability to make its Loan Repayments. The Authority has not reviewed the Feasibility Study or financial information provided by the Corporation. There can be no assurance that as a result of the Feasibility Study or issuance of insurance by the Office that the Corporation will be able to meet its Loan Repayments.

A copy of the Feasibility Study is included herein as "APPENDIX F". Investors should review the Feasibility Study prior to purchasing the Bonds.

## **CONTINUING DISCLOSURE**

The Corporation has undertaken all responsibilities for any continuing disclosure to Holders of the Bonds as described below, and the Authority shall have no liability to the Holders of the Bonds or any other person with respect to Rule 15c2-12 promulgated by the Securities and Exchange Commission (the "Rule").

The Corporation has covenanted for the benefit of Holders of the Bonds to provide upon request certain financial information and operating data relating to the Corporation and publicly available at the time of the request (an "Annual Report"), and to file notices of the occurrence of certain enumerated events, if material. An Annual Report, consisting of the most recently available documents of the type to be included in the Annual Report at the time the request is received, will be provided to any person who requests it. The notices of material events will be filed by the Corporation with the Municipal Securities Rulemaking Board and with the appropriate State information depository, if any. Requests for copies of an Annual Report and notices of material events should be addressed to:

never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

### MISCELLANEOUS

The foregoing and subsequent summaries, descriptions or provisions of the Bonds, the Indenture, Loan Agreement, the Contract of Insurance, the Regulatory Agreement and the Deed of Trust and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof.

Other than with respect to information concerning the Authority contained under the captions "THE AUTHORITY" and "ABSENCE OF MATERIAL LITIGATION - The Authority," as it relates to the Authority, none of the information in this Official Statement has been supplied or verified by the Authority, and the Authority makes no representation or warranty, express or implied, as to (a) the accuracy or completeness of such information; (b) the validity of the Bonds; or (c) the tax status of the interest on the Bonds

This Official Statement is not to be construed as a contract or agreement between the Authority or the Corporation and the Holders of any of the Bonds.

ABAG FINANCE AUTHORITY FOR  
NONPROFIT CORPORATIONS

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

  
Chief Financial Officer

APPROVED:

BECOMING INDEPENDENT

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

  
Chief Executive Officer

Becoming Independent  
1425 Corporate Center Parkway  
Santa Rosa, California 95407  
Attention: Chief Executive Officer

The specific nature of the information to be contained in an Annual Report or the notices of material events is set forth in APPENDIX E – “FORM OF CONTINUING DISCLOSURE CERTIFICATE.” These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5). The Corporation has never failed to comply in all material respects with any previous undertakings with regard to said Rule to provide annual reports or notices of material events.

### MISCELLANEOUS

The foregoing and subsequent summaries, descriptions or provisions of the Bonds, the Indenture, Loan Agreement, the Contract of Insurance, the Regulatory Agreement and the Deed of Trust and all references to other materials not purporting to be quoted in full are only brief outlines of some of the provisions thereof and do not purport to summarize or describe all of the provisions thereof.

Other than with respect to information concerning the Authority contained under the captions “THE AUTHORITY” and “ABSENCE OF MATERIAL LITIGATION - The Authority,” as it relates to the Authority, none of the information in this Official Statement has been supplied or verified by the Authority, and the Authority makes no representation or warranty, express or implied, as to (a) the accuracy or completeness of such information; (b) the validity of the Bonds; or (c) the tax status of the interest on the Bonds

This Official Statement is not to be construed as a contract or agreement between the Authority or the Corporation and the Holders of any of the Bonds.

ABAG FINANCE AUTHORITY FOR  
NONPROFIT CORPORATIONS

By:           /s/ Joseph K. Chan            
Chief Financial Officer

APPROVED:

BECOMING INDEPENDENT

By:           /s/ John E. McCue            
Chief Executive Officer

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

## APPENDIX A

### INFORMATION CONCERNING THE CORPORATION

*The information contained herein as Appendix A has been obtained from the Corporation. Neither the Underwriter nor the Authority makes any representation as to the accuracy of this information.*

#### General

Becoming Independent (the “Corporation”) was founded in 1980, and is a nonprofit public benefit corporation governed by a Board of Directors. The Corporation provides a number of vocational and functional living services for individuals with developmental disabilities, including mental retardation, autism, epilepsy, cerebral palsy and related conditions. More than 95% of this population is comprised of individuals who have very low and low-income levels. Over the past 23 years, the Corporation has grown to become the largest service provider of its kind in Sonoma, Napa and Solano Counties. The Corporation’s mission is to promote community inclusion and participation for the three-county area. Since opening in 1980, the Corporation’s programs have operated at effective full capacity.

#### Existing Facilities and Services

The Corporation's service area includes Sonoma, Napa and Solano Counties. The Corporation's personal, social and vocational service programs (adult day services) provide a broad-based curriculum focusing on functional living skills, community access and vocational training. These programs collectively serve approximately 364 people in Santa Rosa, Healdsburg and Sonoma.

The Corporation currently occupies six facilities in four cities in Sonoma County and two facilities in Napa County.

*Primary Owned Facility.* The Corporation purchased an existing one-story, 15,360 square-foot office building (the “1425 Facility”) constructed in 1990, and located at 1425 Corporate Center Parkway, Santa Rosa, to house its primary administrative offices as well as a licensed Adult Day Care facility for its clients. The 1425 Facility is located in central Sonoma County, has easy access to principal north/south, east/west highways, is served by the Santa Rosa City Bus system with two stops in front of the Facility, and is geographically central to the primary population centers the Corporation serves. The Facility allows for growth and provide flexible space as the office and/or work groups change composition. Approximately \$200,000 of Bond proceeds will be used for remodeling, following the move of some operations to the 1455 Facility.

The Corporation purchased the 1425 Facility in 1995 for \$1,220,000. The building was secured through a commercial bridge loan and refinanced in February 1996 with 1996 Bond proceeds. Initial improvements and modifications to the 1425 Facility were financed with proceeds of the 1996 Bonds.

*Additional Owned Facility.* In May 2003, the Corporation purchased a 23,040 square-foot building and 1.87 acres of undeveloped land, both immediately adjacent to the 1425

Facility. The Corporation plans on using Bond proceeds to renovate this facility, as well as to refinance the \$3.25 million in loans used to purchase this facility. Remodeling expenses, which will also be reimbursed with Bond proceeds, will total \$660,000, and includes approximately \$560,000 for improvements to the building and \$100,000 for seismic upgrades. The 1.87 acre parcel of adjacent land will serve as a garden and outdoor area until such time the Corporation decides to build an additional facility to meet growth.

*Leased Facilities.* The Corporation leases five buildings containing approximately 15,000 square feet. The Corporation continues to have outposts for Community Living and Employment Services in Rohnert Park and Napa, and has additional day program space in Sonoma Valley and Healdsburg.

## **Services**

The Corporation's programs provide broad-based curricula focusing on functional living skills, community access and vocational training. Three of these programs are licensed through the State Department of Social Services as Adult Day Care Facilities. The Corporation's services fall generally into four categories, as follows.

*Adult Day Services.* Adult Day Services provides a broad-based curriculum focusing on functional living skills, community access, and vocational training. These programs are primarily funded through State Department of Developmental Services. The Corporation has five licensed facilities in Santa Rosa, Healdsburg, and Sonoma and serves approximately 364 clients at any time. In fiscal year 2002-03, Adult Day Services accounted for \$5.7 million (59%) of the Corporation's revenues. Approximately \$4.9 million of this total was funded by the State Department of Developmental Services, with the remainder provided by two school districts and contract sales. Clients typically spend several years in this program.

*Community Living Supports.* Transportation services are provided to 162 people, ambulatory and non-ambulatory persons participating in these programs who cannot yet utilize public transportation resources to participate in these programs. Community Living Services programs accounted for \$2.7 million, or 28% of the Corporation's revenues in 2002-03. The Corporation provides independent living skills, training and support services to 239 people learning to live independently in their own residences. Community Living Supports also includes services designed to assist parents with developmental disabilities in providing quality parenting within a stable family environment. The primary service area is Sonoma County, with services also provided in Napa and Solano Counties. Community Living Supports has a relationship with the Cotati-Rohnert Park School District, also providing collaborative adult education services.

*Employment and Vocational Services.* The Corporation's Supported Employment program provides competitive employment for individuals through personnel placement, on-the-job training, and ongoing support; currently 48 people are in jobs and 52 are awaiting placement or receiving assessment services. This unit's geographical focus has been in Sonoma County, with job matches in businesses from Petaluma and Sonoma in the south to Cloverdale in the north. Employment Services account for approximately \$340,000 (3%) of the Corporation's revenues in fiscal year 2002-03. The Corporation's Work Adjustment program is offered in conjunction with the Personal and Social programs. This service provides intensive counseling and instructions geared to prepare individuals for community based work. The program has an average client-to-staffing ratio of 4 to 1.

*Transportation Services.* Transportation services are provided for ambulatory and non-ambulatory persons participating in the Corporation's programs who cannot yet utilize public transportation (approximately 200 clients). The program accounts for approximately \$730,000 (7%) of the Corporation's fiscal year 2002-03 revenues.

## Management

The management of the Corporation is comprised of the following:

John E. McCue, M.P.A., *Chief Executive Officer.* Mr. McCue has served as Executive Director and Chief Executive Officer since 1986. During this period, he has managed the growth of the Corporation from a \$1.6 million dollar budget and a staff of 67 to the current budget of \$10.1 million and a staff of 272. His professional experience in services for persons with disabilities spans over 33 years. Mr. McCue obtained a Bachelor of Arts in Psychology and a Masters of Public Administration, both from the California State University system.

Tom Richardson, M.P.A., *Chief Operating Officer.* Mr. Richardson has been with the Corporation since January 1990. As Chief Operating Officer, he is responsible for directing all aspects of administrative operations, fund development, personnel recruitment and development, planning and evaluation, marketing and public awareness and overall administrative functions. Mr. Richardson holds a Master of Public Administration from Sonoma State University and a Bachelor of Arts, Geography, also from Sonoma State University.

Louise Siri, MBA. *Controller.* Ms. Siri has been with Becoming Independent since July 2000, and is responsible for managing the accounting functions, which includes responsibility for developing and monitoring all accounting and financial procedures and reporting systems to ensure compliance with federal and state laws and regulations. Ms. Siri obtained an AA Degree in Accounting, a Bachelor's Degree in Education from Stanford University, and an MBA in Accounting/Business Management from Sonoma State University.

## Board of Directors

The business of the Corporation is governed by a twelve-member volunteer Board of Directors, compiled from its client base, their families, local businesses and other community members. The Board of Directors meet monthly, and is responsible for establishing policies and approving budgets, activities, programs and capital expenditures. The Board Members and their occupations are as follows.

<u>Name</u>	<u>Position</u>	<u>Occupation</u>
Frank Briceno	President	Attorney at Law
Kathleen Emery-Ronchelli	Vice President	Retired
Ron Hansen	Secretary	Retired
Eugene Baldi	Treasurer	CPA
Phil Gonzalez	Member	Student
Steve Gospe	Member	Medical Doctor
David Cooper	Member	Attorney at Law
Martie Koskoff	Member	Retired
Keith Taylor	Member	Retired
Edward Ronchelli	Member	Retired
Wendell Nordby	Member	Construction
Betty Phillips-Sixt	Member	Community Activist Volunteer

## Insurance Coverage

The Corporation carries commercial property insurance provided by the North American Elite Insurance Co, Manchester, New Hampshire, covering all of the Corporation's facilities. The Corporation also carries general liability/automobile insurance, health coverage for directors/officers and workman's compensation, as follows:

Structure	\$3,000,000
Contents	\$747,000
Liability (including auto)	\$5,000,000
Business interruption and extra expense	Actual loss for 12 months
Errors and omissions	\$2,000,000
Directors and officers liability	\$2,000,000

## Employees

The Corporation currently has 272 employees; 200 employees are full-time and 72 are part-time. None of the employees are represented by any bargaining unit. Health and dental insurance is provided to all qualified regular employees.

## Competition

The Corporation's Adult Day Center competitors are based in Petaluma, Rohnert Park, Sebastopol and Santa Rosa; the Employment Services competitors are based in Petaluma, Rohnert Park and Santa Rosa; the Community Living Service competitors are based in Rohnert Park, Vallejo and Napa.

The following is a list of key providers. As shown, the Corporation is significantly larger than its competitors.

**Old Adobe Development Services** is located in Petaluma and serves approximately 260 Adult Day Service clients, mostly in southern Sonoma County. This is the second largest California State Department of Developmental Services funding provided through the North Bay Regional Center ("NBRC") in Sonoma County. Old Adobe Development Services offers comparable services to the Corporation's programs, with the primary difference being that Old Adobe Development Services does not serve people with significant health care needs, and is more limited for growth in its current facilities.

**Dungarvin** is located in Santa Rosa and provides services comparable to the Corporation's. Dungarvin serves approximately 50 Adult Day Service clients. Dungarvin's lack of Community Living Service and Employment Service programs limits their client's community access and work opportunities.

**Redwood Empire Industries** is located in Santa Rosa and provides services comparable to the Corporation's Adult Day Service and Employment Service programs. Redwood Empire Industries serves approximately 20 Adult Day Service clients and approximately 25 Employment Service clients. Redwood Empire Industries does not have the job development staff comparable to the Corporation, limiting opportunities for their clients.

*The Oaks of Hebron* is located in Rohnert Park and provides Community Living Services to approximately 85 adults and is the second largest provider of Community Living Service services in Sonoma County.

Management of the Corporation does not see competition in the Corporation's service area as a threat to its own operational and financial health, primarily due to management's confidence in the Corporation's reputation and projected increase in demand for services.

## **Sources of Revenues**

The Corporation receives revenues primarily from seven sources, described as follows:

*North Bay Regional Center Funding.* The majority of the Corporation's revenues (in excess of 80% percent during fiscal year 2002-03) comes from State Regional Centers ("Regional Centers"). Regional Centers are the State's main mechanism for disbursing services and monitoring care for the developmentally disabled. There are a total of 21 Regional Centers, located throughout the State. The State legislature created the regional center concept to provide fixed points of contact in the community for persons with developmental disabilities to access services best suited to serve them throughout their lifetimes. The State Department of Developmental Services contracts with Regional Centers to provide case management and related services mandated by statute under State Lanterman Act legislation. The Regional Centers, in turn, contract with local vendors to provide specific services.

The Corporation's largest single funding source is the North Bay Regional Center located in Sonoma County. In general, the North Bay Regional Center determines the Corporation's reimbursement rate per program based on the actual cost of providing the services (as submitted in reports), up to an average statewide reimbursement rate. The Corporation's management believes that current levels of reimbursement through the Regional Center are adequate, and that this source of revenue is stable given that it is entitlement-based through Lanterman Act legislation.

*Department of Rehabilitation Funding.* The Corporation's second largest source of revenue (approximately 4.4 percent during fiscal year 2002-03) is provided by The State Department of Rehabilitation ("DOR"). DOR provides direct funding (i.e., not through the Regional Centers) for vocational training, employment services and vocational-rehabilitation to persons with developmental disabilities. The Corporation's Supported Employment Program funded by DOR receives a set fee established by statute.

*Miscellaneous Service Fees.* The Corporation also receives various fees from other regional centers and from Sonoma County for particular services.

*School District Subsidies.* The Corporation receives, on average, \$380,000 per year from Santa Rosa Junior College for providing particular services to developmentally disabled students enrolled in adult education classes. It further receives roughly \$66,000 per year for adult programs from the Sonoma Valley Unified School District, and about \$15,000 per year from the Cotati-Rohnert Park Unified School District.

*Contracts with Business.* The Corporation contracts with business and government agencies to provide clients with vocational opportunities. While this remains a relatively small percent of the Corporation's overall funding, revenue from these contracts has been increasing slightly each year, realizing \$406,000 in 2002-03.

*Donations, Fundraisings and Grants.* The Corporation's revenues from fundraising activities have been increasing steadily over the past three years. Additionally, the Corporation has historically obtained a mix of grants, including grants in support of operational activities and grants for equipment.

*Other Income.* Other Income includes interest income, revenue from managing apartments for clients and sales of training materials.

The table below shows the Corporation's Statement of Activities and changes in net assets for fiscal years 1999-00 through 2002-03, compiled from the Corporation's audited financial statements.

**BECOMING INDEPENDENT**  
**Statements of Activities and Changes in Net Assets**  
**Fiscal Years Ended June 30**

	Audited <u>1999-00</u>	Audited <u>2000-01</u>	Audited <u>2001-02</u>	Audited <u>2002-03</u>
<b><u>Changes in unrestricted net assets</u></b>				
<i>Support and revenue</i>				
Contributions	\$ 74,919	\$187,980	\$ 258,859	\$293,528
Special event, net of costs of direct benefits	4,761	4,874	903	193
Service fees	6,437,515	7,655,889	8,524,424	8,592,620
Santa Rosa Junior College subsidy	378,813	394,572	380,850	357,814
Cotati-Rohnert Park USD subsidy	15,072	15,072	15,072	15,072
Sonoma Valley USD subsidy	64,249	67,500	66,075	64,937
Work activities revenue	322,113	411,777	374,455	406,085
Interest income	4,767	7,543	9,116	11,627
Other income	<u>31,769</u>	<u>12,910</u>	<u>22,886</u>	<u>20,978</u>
Total unrestricted support and revenue	7,333,978	8,758,117	9,652,640	9,762,854
<i>Net assets released from restrictions</i>				
Restrictions satisfied by payments	97,401	134,085	4,074	24,221
Expiration of time restrictions on grants	<u>37,825</u>	<u>57,351</u>	<u>40,767</u>	<u>56,040</u>
Total unrestricted support revenue and reclassifications	7,469,204	8,949,553	9,697,481	9,843,115
<i>Expenses</i>				
<i>Program services</i>				
Day training and activities	4,406,863	5,174,961	5,408,694	5,704,350
Transportation	522,300	582,458	625,320	655,496
Independent living skills	<u>1,803,942</u>	<u>2,132,734</u>	<u>2,224,659</u>	<u>2,379,849</u>
Total program services	6,733,105	7,890,153	8,258,673	8,739,695
<i>Supporting services</i>				
Management and general	513,060	694,565	712,778	736,531
Fundraising	<u>92,324</u>	<u>136,154</u>	<u>159,286</u>	<u>160,208</u>
Total supporting services	605,384	830,719	782,064	896,739
Total unrestricted expenses	7,338,489	8,720,872	9,130,737	9,636,434
Increase in unrestricted net assets	130,715	228,681	566,744	206,681
<b><u>Changes in temporarily restricted net assets</u></b>				
Contributions	78,737	--	35,630	30,480
Grant funding for specific purchases	77,165	--	33,288	72,000
Matching requirements for grant funding	--	--	--	15,162
Income on restricted investments	10,294	11,174	4,138	3,140
<i>Net assets released from restrictions</i>				
Restrictions satisfied by payments	(97,401)	(134,085)	(4,074)	(24,221)
Expiration of time restrictions on grant funding	<u>(37,825)</u>	<u>(57,351)</u>	<u>(40,767)</u>	<u>(56,040)</u>
Increase(decrease) in temporarily restricted assets	30,970	(180,262)	28,215	40,521
Increase in net assets	161,685	48,419	594,959	247,202
Net assets at beginning of year	<u>1,056,276</u>	<u>1,217,961</u>	<u>1,266,380</u>	<u>1,861,339</u>
Net assets at end of year	\$1,217,981	\$1,266,380	\$1,861,339	\$2,108,541

Source: Corporation's Audited Financial Statements

Shown below is a three-year summary of the Corporation's balance sheet, taken from the Corporation's audited financial statements.

**BECOMING INDEPENDENT  
Balance Sheet  
Fiscal Years Ended June 30**

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
<b>ASSETS</b>				
<b>Current Assets:</b>				
Cash	\$ --	\$ 447,683	\$ 813,615	\$ 586,942
Certificates of deposit	--	--	125,169	125,627
Grants receivable	73,164	--	--	824,918
Accounts receivable	1,001,276	808,683	911,353	12,520
Employee advances	1,140	--	--	6,744
Inventory	89,806	10,799	8,623	7,343
Prepaid expenses	<u>84,729</u>	<u>24,757</u>	<u>62,942</u>	<u>80,090</u>
Total current assets	1,250,115	1,291,922	1,921,702	1,644,184
Investment	--	--	--	26,687
Property, equipment and improvements	1,762,504	1,738,156	1,794,377	5,410,328
Debt issuance costs:	100,652	95,742	90,832	86,739
Loan acquisition costs	--	--	--	21,047
Debt service reserve	127,545	127,545	127,545	127,545
Assets held in trust	21,902	10,405	10,469	5,285
Cash value of life insurance	--	--	6,995	26,995
Lease deposits	<u>7,463</u>	<u>7,463</u>	<u>7,463</u>	<u>7,463</u>
<b>Total Assets</b>	<b><u>\$3,270,181</u></b>	<b><u>\$3,271,233</u></b>	<b><u>\$3,959,383</u></b>	<b><u>\$7,356,273</u></b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities:</b>				
Accounts payable and accrued expenses	\$ 516,236	\$ 560,808	\$ 682,707	\$ 636,459
Deferred revenue	37,655	--	--	45,000
Current portion of long-term debt	<u>40,000</u>	<u>41,667</u>	<u>45,000</u>	<u>50,837</u>
Total current liabilities	593,891	602,475	727,707	732,296
Note payable to trust	--	--	1,370,337	1,326,122
Long-term debt	<u>1,458,329</u>	<u>1,402,378</u>	<u>--</u>	<u>3,189,314</u>
Total Liabilities	2,052,220	2,004,853	2,098,044	5,247,732
<b>Net Assets:</b>				
Unrestricted	740,300	968,981	1,535,725	1,742,406
Temporarily restricted	476,661	296,399	324,614	365,135
Permanently restricted	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>	<u>1,000</u>
Total net assets	1,217,961	1,266,380	1,861,339	2,108,541
<b>Total Liabilities and Net Assets</b>	<b><u>\$3,270,181</u></b>	<b><u>\$3,271,233</u></b>	<b><u>\$3,959,383</u></b>	<b><u>\$7,356,273</u></b>

Source: Corporation's Audited Financial Statements

The table below shows unaudited revenues, expenses and change in net assets for the first four months of Fiscal Year 2003-04, derived from the Corporation's records.

**BECOMING INDEPENDENT**  
**Statements of Activities and Changes in Net Assets**  
**First Four Months of Fiscal Year 2003-04**

	July 1 through October 31	July 1 through October 31
	<u>2002-03</u>	<u>2003-04</u>
<u>Revenues</u>		
Donations & Fundraising	\$ 45,551	\$ 30,356
Sales and Service Revenue	3,095,507	3,153,066
Subsidized Salaries	131,856	131,423
Other Income	<u>9,939</u>	<u>28,346</u>
Total Revenues	3,282,854	3,343,190
 <u>Expenses</u>		
Personnel	2,670,271	2,746,938
Supplies	65,169	64,216
Travel	121,089	124,145
Occupancy	134,200	152,847
Communications	55,657	70,012
Other Costs	38,307	44,362
Depreciation & Amortization	<u>66,907</u>	<u>78,301</u>
Total Expenses	3,151,600	3,280,820
 Current Surplus (Deficit)	 <u>\$ 131,255</u>	 <u>\$ 62,371</u>

Source: Corporation's Audited Financial Statements

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS OF THE CORPORATION**

Audited financial statements of the Corporation for the Fiscal Years ended June 30, 2003 and 2002 are attached hereto.

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

**Becoming Independent  
(A Nonprofit Corporation)**

**Financial Statements**

**Years Ended June 30, 2003 and 2002**

---

## Table of Contents

	<b>Page</b>
<b>Independent Auditors' Report</b>	1
<b>Financial Statements</b>	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3
Statements of Functional Expenses	4 and 5
Statements of Cash Flows	6 and 7
Notes to Financial Statements	8 - 13



PISENTI & BRINKER

LLP

CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS  
MEMBER: THE MCGGLADREY NETWORK - RSM INTERNATIONAL

## Independent Auditors' Report

To the Board of Directors  
Becoming Independent  
Santa Rosa, California

We have audited the accompanying statements of financial position of **Becoming Independent (A Nonprofit Corporation)** (the "Organization") as of June 30, 2003 and 2002, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion 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. Those standards require that we plan and perform the audits 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **Becoming Independent** as of June 30, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Pisen & Brinker LLP*

Petaluma, California  
October 9, 2003

**Becoming Independent  
(A Nonprofit Corporation)**

**Statements of Financial Position**

<b>June 30,</b>	<b>2003</b>	<b>2002</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 586,942	\$ 813,615
Certificates of deposit	125,627	125,169
Accounts receivable	824,918	911,353
Grant receivable	12,520	-
Employee advances	6,744	-
Inventory	7,343	8,623
Prepaid expenses	80,090	62,942
<b>Total current assets</b>	<b>1,644,184</b>	<b>1,921,702</b>
<b>Investment</b>	<b>26,687</b>	<b>-</b>
Property, equipment and improvements	5,410,328	1,794,377
Debt issuance costs	86,739	90,832
Loan acquisition costs	21,047	-
Debt service reserve	127,545	127,545
Assets held in trust	5,285	10,469
Cash value of life insurance	26,995	6,995
Lease deposits	7,463	7,463
	<b>\$ 7,356,273</b>	<b>\$ 3,959,383</b>
<b>Liabilities and net assets</b>		
<b>Current liabilities</b>		
Accounts payable and accrued expenses	\$ 636,459	\$ 682,707
Current portion of note payable to trust	45,000	45,000
Current portion of long-term debt	50,837	-
<b>Total current liabilities</b>	<b>732,296</b>	<b>727,707</b>
Note payable to trust	1,326,122	1,370,337
Long-term debt	3,189,314	-
<b>Total liabilities</b>	<b>5,247,732</b>	<b>2,098,044</b>
<b>Net assets</b>		
Unrestricted	1,742,406	1,535,725
Temporarily restricted	365,135	324,614
Permanently restricted	1,000	1,000
<b>Total net assets</b>	<b>2,108,541</b>	<b>1,861,339</b>
	<b>\$ 7,356,273</b>	<b>\$ 3,959,383</b>

See accompanying Notes to Financial Statements

**Becoming Independent  
(A Nonprofit Corporation)**

**Statements of Activities and Changes in Net Assets**

<b>Years Ended June 30,</b>	<b>2003</b>	<b>2002</b>
<b>Changes in unrestricted net assets</b>		
<i>Support and revenue</i>		
Contributions	\$ 293,528	\$ 258,859
Special event revenue, net of costs of direct benefits to donors of \$26,952 and \$28,947, respectively	193	903
Service fees	8,592,620	8,524,424
Santa Rosa Junior College subsidy	357,814	380,850
Cotati-Rohnert Park Unified School District subsidy	15,072	15,072
Sonoma Valley Unified School District subsidy	64,937	66,075
Work activities revenue	406,085	374,455
Interest income	11,627	9,116
Other income	20,978	22,886
<b>Total unrestricted support and revenue</b>	<b>9,762,854</b>	<b>9,652,640</b>
<i>Net assets released from restrictions</i>		
Restrictions satisfied by payments	24,221	4,074
Expiration of time restrictions on grant funding	56,040	40,767
<b>Total unrestricted support, revenue and reclassifications</b>	<b>9,843,115</b>	<b>9,697,481</b>
<i>Expenses</i>		
<i>Program services</i>		
Day training and activities	5,704,350	5,408,694
Transportation	655,496	625,320
Independent living skills	2,379,849	2,224,659
<b>Total program services</b>	<b>8,739,695</b>	<b>8,258,673</b>
<i>Supporting services</i>		
Management and general	736,531	712,778
Fundraising	160,208	159,286
<b>Total supporting services</b>	<b>896,739</b>	<b>872,064</b>
<b>Total unrestricted expenses</b>	<b>9,636,434</b>	<b>9,130,737</b>
<b>Increase in unrestricted net assets</b>	<b>206,681</b>	<b>566,744</b>
<b>Changes in temporarily restricted net assets</b>		
Contributions	30,480	35,630
Grant funding for specific purchases	72,000	33,288
Matching requirements for grant funding	15,162	-
Income on restricted investments	3,140	4,138
<i>Net assets released from restrictions</i>		
Restrictions satisfied by payments	(24,221)	(4,074)
Expiration of time restrictions on grant funding	(56,040)	(40,767)
<b>Increase in temporarily restricted net assets</b>	<b>40,521</b>	<b>28,215</b>
<b>Increase in net assets</b>	<b>247,202</b>	<b>594,959</b>
<b>Net assets at beginning of year</b>	<b>1,861,339</b>	<b>1,266,380</b>
<b>Net assets at end of year</b>	<b>\$ 2,108,541</b>	<b>\$ 1,861,339</b>

See accompanying Notes to Financial Statements

**Becoming Independent  
(A Nonprofit Corporation)**

**Statement of Functional Expenses**

**Year Ended June 30, 2003**

	Program Services				Supporting Services			Total Expenses
	Day Training and Activities	Transportation	Independent Living Skills	Program Services Total	Management and General	Fund-raising	Supporting Services Total	
Salaries, staff	\$ 3,326,967	\$ 332,298	\$ 1,646,233	\$ 5,305,498	\$ 445,584	\$ 67,802	\$ 513,386	\$ 5,818,884
Salaries, clients	270,840	-	-	270,840	-	-	-	270,840
Employee benefits	441,063	46,236	169,742	657,041	45,125	5,395	50,520	707,561
Payroll taxes	702,439	90,261	289,722	1,082,422	47,539	7,260	54,799	1,137,221
<b>Subtotal</b>	<b>4,741,309</b>	<b>468,795</b>	<b>2,105,697</b>	<b>7,315,801</b>	<b>538,248</b>	<b>80,457</b>	<b>618,705</b>	<b>7,934,506</b>
Professional fees	36,449	626	11,551	48,626	31,529	777	32,306	80,932
Supplies	126,207	2,676	29,271	158,154	20,660	729	21,389	179,543
Supplies, work activities	23,128	-	-	23,128	-	-	-	23,128
Vehicle expenses	103,916	123,320	51	227,287	-	53	53	227,340
Travel and transportation	57,679	863	71,223	129,765	5,217	1,312	6,529	136,294
Rent	164,178	3,903	19,003	187,084	5,573	-	5,573	192,657
Insurance	49,241	3,640	17,271	70,152	19,513	554	20,067	90,219
Repairs and maintenance	41,571	3,050	12,876	57,497	6,338	-	6,338	63,835
Utilities	46,303	3,375	13,039	62,717	3,345	724	4,069	66,786
Telephone	44,644	10,612	22,110	77,366	8,371	528	8,899	86,265
Postage and copying	6,954	133	5,961	13,048	21,529	21,474	43,003	56,051
Training and conference	15,213	641	15,634	31,488	14,320	909	15,229	46,717
Interest	48,457	5,568	20,216	74,241	6,899	1,355	8,254	82,495
Fund-raising	-	-	-	-	-	48,212	48,212	48,212
Marketing	1,142	-	207	1,349	452	467	919	2,268
Other	37,917	(26,586)	5,310	16,641	39,479	770	40,249	56,890
<b>Subtotal</b>	<b>802,999</b>	<b>131,821</b>	<b>243,723</b>	<b>1,178,543</b>	<b>183,225</b>	<b>77,864</b>	<b>261,089</b>	<b>1,439,632</b>
Depreciation and amortization	160,042	54,880	30,429	245,351	15,058	1,887	16,945	262,296
	<b>\$ 5,704,350</b>	<b>\$ 655,496</b>	<b>\$ 2,379,849</b>	<b>\$ 8,739,695</b>	<b>\$ 736,531</b>	<b>\$ 160,208</b>	<b>\$ 896,739</b>	<b>\$ 9,636,434</b>

See accompanying Notes to Financial Statements

**Becoming Independent**  
**(A Nonprofit Corporation)**

**Statement of Functional Expenses**

**Year Ended June 30, 2002**

	Program Services				Supporting Services			Total Expenses
	Day Training and Activities	Trans- portation	Independent Living Skills	Program Services Total	Management and General	Fund-raising	Supporting Services Total	
Salaries, staff	\$ 3,260,287	\$ 339,392	\$ 1,604,133	\$ 5,203,812	\$ 455,986	\$ 61,217	\$ 517,203	\$ 5,721,015
Salaries, clients	253,615	-	-	253,615	-	-	-	253,615
Employee benefits	378,184	37,943	143,669	559,796	39,982	6,719	46,701	606,497
Payroll taxes	584,604	78,783	227,356	890,743	53,624	6,864	60,488	951,231
<b>Subtotal</b>	<b>4,476,690</b>	<b>456,118</b>	<b>1,975,158</b>	<b>6,907,966</b>	<b>549,592</b>	<b>74,800</b>	<b>624,392</b>	<b>7,532,358</b>
Professional fees	36,030	1,955	16,735	54,720	23,647	-	23,647	78,367
Supplies	133,723	1,923	27,261	162,907	19,620	2,841	22,461	185,368
Supplies, work activities	22,346	-	-	22,346	-	-	-	22,346
Vehicle expenses	103,366	120,742	-	224,108	-	-	-	224,108
Travel and transportation	52,281	813	62,235	115,329	4,649	976	5,625	120,954
Rent	163,747	3,824	20,833	188,404	4,996	-	4,996	193,400
Insurance	23,662	2,093	8,903	34,658	20,035	608	20,643	55,301
Repairs and maintenance	63,549	5,646	18,447	87,642	12,992	1,887	14,879	102,521
Utilities	47,782	3,250	12,637	63,669	3,293	1,298	4,591	68,260
Telephone	43,793	12,285	18,738	74,816	5,346	558	5,904	80,720
Postage and copying	16,205	741	8,859	25,805	7,305	18,861	26,166	51,971
Training and conference	18,284	870	13,244	32,398	7,030	1,845	8,875	41,273
Interest	49,292	5,694	20,256	75,242	6,702	2,586	9,288	84,530
Fund-raising	-	-	-	-	-	46,289	46,289	46,289
Marketing	1,666	-	-	1,666	392	3,566	3,958	5,624
Other	43,434	(42,203)	1,914	3,145	31,598	1,366	32,964	36,109
<b>Subtotal</b>	<b>819,160</b>	<b>117,633</b>	<b>230,062</b>	<b>1,166,855</b>	<b>147,605</b>	<b>82,681</b>	<b>230,286</b>	<b>1,397,141</b>
Depreciation and amortization	112,844	51,569	19,439	183,852	15,581	1,805	17,386	201,238
	<b>\$ 5,408,694</b>	<b>\$ 625,320</b>	<b>\$ 2,224,659</b>	<b>\$ 8,258,673</b>	<b>\$ 712,778</b>	<b>\$ 159,286</b>	<b>\$ 872,064</b>	<b>\$ 9,130,737</b>

See accompanying Notes to Financial Statements

**Becoming Independent  
(A Nonprofit Corporation)**

**Statements of Cash Flows**

<b>Years Ended June 30,</b>	<b>2003</b>	<b>2002</b>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 247,202	\$ 594,959
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	262,296	201,238
Unrealized gain on investment	(1,687)	-
Loss on disposal of equipment	4,846	368
Equipment donated	(18,540)	(7,920)
Contribution restricted for acquisition of equipment	(49,630)	(6,630)
Changes in assets and liabilities affecting operating activities		
(Increase) decrease in assets:		
Accounts receivable	86,435	(102,670)
Grant receivable	(12,520)	-
Employee advances	(6,744)	-
Inventory	1,280	2,176
Prepaid expenses	(17,148)	(38,185)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(46,248)	94,714
<b>Net cash provided by operating activities</b>	<b>449,542</b>	<b>738,050</b>
<b>Cash flows from investing activities</b>		
Acquisition of property, equipment and improvements	(3,661,460)	(217,812)
Proceeds from sale of equipment	1,000	-
Purchase of certificates of deposit	(458)	(125,169)
Investment in life insurance policy	(20,000)	(6,995)
(Increase) decrease in assets held in trust	5,184	(64)
Purchase of investment	(25,000)	-
<b>Net cash used in investing activities</b>	<b>(3,700,734)</b>	<b>(350,040)</b>
<b>Cash flows from financing activities</b>		
Principal payments on note payable to trust	(44,215)	(28,708)
Proceeds from long-term debt	3,046,202	-
Principal payments on long-term debt	(6,051)	-
Contribution restricted for acquisition of equipment	49,630	6,630
Payment of loan acquisition costs	(21,047)	-
<b>Net cash provided by (used in) financing activities</b>	<b>3,024,519</b>	<b>(22,078)</b>
<b>Net increase (decrease) in cash</b>	<b>(226,673)</b>	<b>365,932</b>
<b>Cash at beginning of year</b>	<b>813,615</b>	<b>447,683</b>
<b>Cash at end of year</b>	<b>\$ 586,942</b>	<b>\$ 813,615</b>

See accompanying Notes to Financial Statements

**Becoming Independent**  
**(A Nonprofit Corporation)**

**Statements of Cash Flows (continued)**

<b>Years Ended June 30,</b>	<b>2003</b>	<b>2002</b>
<b>Supplemental disclosure of cash flow information:</b>		
Cash paid for:		
Interest, net of amounts capitalized	\$ 68,100	\$ 84,530
Noncash investing and financing transactions:		
Equipment purchases included in accounts payable	\$ -	\$ 27,185
Acquisition of building partially financed by seller	\$ 200,000	\$ -

See accompanying Notes to Financial Statements

**Note A. Summary of Activities and Significant Accounting Policies**

Becoming Independent (the "Organization") is a nonprofit corporation designed to promote community integration and participation for persons with developmental disabilities. Becoming Independent was incorporated in California and operates programs providing day training services, employment services, independent living services, and transportation services primarily in Sonoma County. The Organization grants unsecured credit to customers and third party payers throughout California.

*Contributions*

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to make a gift to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Permanently restricted net assets represents assets that must be permanently maintained in accordance with the stated wishes of the donor.

Contributed services are recognized when the Organization would typically purchase such services if they require specialized skills and the contributor possesses such skills.

*Accounts receivable*

Accounts receivables are carried at original invoice amount less an estimate made for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experiences applied to an aging of accounts. Accounts receivables are written off when deemed uncollectible. Recoveries of accounts receivables previously written off are recorded when received.

A receivable is considered to be past due if any portion of the receivable balance is outstanding for more than 90 days. Interest is not charged on accounts receivable balances.

*Allowance for doubtful accounts*

The Organization uses the allowance method for recognition of losses from uncollectible accounts receivable. At June 30, 2003 and 2002, accounts receivable are presented net of an allowance for doubtful accounts in the amount of \$3,000.

*Inventory*

Inventory is valued at the lower of cost or market, with cost determined on a first-in, first-out basis.

**Note A. Summary of Activities and Significant Accounting Policies (continued)**

*Investment*

The investment consists of funds held by the Sonoma County Community Foundation in an investment pool. The investment is stated at its fair value. Net realized and unrealized gains and losses are reported in the statement of activities in interest income.

*Property, equipment and improvements*

Property, equipment and improvements are stated at cost less accumulated depreciation and amortization. Equipment depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from 5 to 12 years. Buildings and related improvements are depreciated on a straight-line basis over 40 years. Leasehold improvements are amortized on a straight-line basis over 5 to 20 years with any unamortized balance written off to expense if a lease is terminated before the improvement has been fully amortized. Donated property is recorded at its estimated fair value at the date of receipt. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Long-lived assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Unless otherwise stated by the donor, the restriction expires over the useful life of the asset.

*Debt issuance costs*

Legal fees, accounting fees, and other expenses associated with the issuance of the long-term debt are being amortized on a straight-line basis over the life of the loan. Debt issuance costs in the amount of \$122,744 are shown net of accumulated amortization in the amount of \$36,005 and \$31,912, as of June 30, 2003 and 2002, respectively. Amortization expense amounted to \$4,093 and \$4,910 for 2003 and 2002, respectively.

*Debt service reserve*

Debt service reserve consists of proceeds received from the long-term debt which are held by a trustee for future payment of the debt.

*Income taxes*

As a nonprofit corporation, the Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. These exemptions are subject to periodic review by the taxing authorities. In the opinion of management, there is no unrelated business income subject to income taxes.

*Service fees*

The majority of the Organization's revenue is derived from reimbursements from a third party for services performed. Service fee revenue is recognized when the service is performed.

*Functional expenses*

Expenses that are specifically identifiable are charged directly to the appropriate functional category. All other expenses are charged based on a reasonable allocation.

**Becoming Independent  
(A Nonprofit Corporation)**

**Notes to Financial Statements**

**Years Ended June 30, 2003 and 2002**

**Note A. Summary of Activities and Significant Accounting Policies (continued)**

*Use of estimates*

The preparation of financial statements requires management to make estimates based on management's knowledge and experience. Those estimates affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported support, revenue and expenses. Due to their prospective nature, actual results could differ from those estimates.

**Note B. Concentrations**

At various times during the year ended June 30, 2003, the Organization had on deposit with its financial institutions amounts in excess of the \$100,000 federally insured deposit limit. At June 30, 2003, the Organization had \$487,224 on deposit in excess of this amount.

**Note C. Inventory and Sales of Training Materials**

Training materials inventory consists of booklets and audio tapes that are held for sale. Called Teaching Resource and Assessment of Critical Skills ("TRACS"), these materials are intended for use by schools, independent living programs and others as a tool to promote the acquisition of independent living skills by persons with developmental, mental or learning disabilities. The Organization holds the copyright and marketing rights to TRACS under a royalty agreement with its authors, one of which is an employee of the Organization. This agreement calls for the authors to receive a royalty of 50% of any net profits from the sale of TRACS after the Organization has recovered all costs it has incurred in the production and marketing of TRACS. As of June 30, 2003, the Organization has not recovered all these costs and is not liable for royalty payments.

**Note D. Property, Equipment and Improvements**

	2003	2002
Land	\$ 1,657,768	\$ 342,768
Land-not used in operations	620,000	-
Building and improvements	1,146,445	1,145,673
Building under development	1,554,643	4,000
Furniture and equipment	566,989	448,985
Vehicles	1,010,947	778,383
Leasehold improvements	4,154	4,154
Accumulated depreciation and amortization	6,560,946 (1,150,618)	2,723,963 (929,586)
	\$ 5,410,328	\$ 1,794,377

Depreciation and amortization expense amounted to \$258,203 and \$196,328 for 2003 and 2002, respectively. The building under development includes \$26,572 of interest costs capitalized during 2003.

**Becoming Independent  
(A Nonprofit Corporation)**

**Notes to Financial Statements**

**Years Ended June 30, 2003 and 2002**

**Note E. Bank Line of Credit**

The Organization has a \$400,000 line of credit with a bank which matures January 31, 2004 and is secured by substantially all assets of the Organization with the exception of the land, building and grant equipment. The interest rate is the bank's index rate plus 1.5%, and interest is payable monthly. At June 30, 2003 and 2002, there were no borrowings under this line of credit.

**Note F. Note Payable to Trust**

The Organization acquired property for use as its corporate offices and an adult day care facility with two notes. The notes were then refinanced by the Organization with a loan from the California Health Facilities Financing Authority (the "Authority"). The proceeds of the new loan were also used to finance the acquisition, installation, and construction of improvements to the Organization's facilities. The Authority made the loan to the Organization through the issuance of insured revenue bonds. The Organization must make monthly installments including interest and insurance to a trust to satisfy the funding requirements of the bond issue. The note bears interest at rates varying from 3.85% to 5.70% and is secured by substantially all of the Organization's assets.

Under the terms of the agreement, the Organization is required to comply with certain covenants. The Organization must also maintain a capital replacement fund to provide for future capital expenditures and certain repair and maintenance expenses. Beginning with the year ended June 30, 1997, the Organization must annually reserve \$35,000. The capital replacement amount is to be adjusted annually based on the Consumer Price Index. The actual amount to be reserved may be adjusted if the Organization incurs certain expenses or purchases capital equipment. For the years ended June 30, 2003 and 2002, the Organization was not required to place any funds in the reserve because the Organization had incurred expenses in excess of the amount required.

The following is a summary of the note at June 30:

	2003	2002
Note payable to trust, due February 1, 2021	\$ 1,371,122	\$ 1,415,337
Current portion	(45,000)	(45,000)
	\$ 1,326,122	\$ 1,370,337

Aggregate annual maturities are as follows:

Year ending June 30,	
2004	\$ 45,000
2005	46,667
2006	50,000
2007	51,667
2008	56,667
Thereafter	1,121,121
	\$ 1,371,122

**Becoming Independent  
(A Nonprofit Corporation)**

**Notes to Financial Statements**

**Years Ended June 30, 2003 and 2002**

**Note G. Long-Term Debt**

Note payable to financial institution, secured by land and building with a net book value of \$3,463,071, monthly installments of \$15,747 including interest at the bank's prime rate plus 1% per annum (5.25% at June 30, 2003), due May 2008	\$2,532,451
Note payable to an organization, secured by land and building with a net book value of \$3,463,071, interest only monthly installments of \$3,173 at 7.50% per annum, due June 2006	507,700
Note payable to an individual, secured by land and building with a net book value of \$3,463,071, interest only monthly installments of \$1,667 at 7.00% per annum, due May 2006	200,000
	3,240,151
Current portion	(50,837)
	\$ 3,189,314

Aggregate annual maturities are as follows:

Year ending June 30,	
2004	\$ 50,837
2005	53,705
2006	764,434
2007	59,934
2008	2,311,241
	\$ 3,240,151

**Note H. Commitments Under Operating Leases**

The Organization leases facilities from which it conducts operations. The facilities are leased under noncancelable operating leases expiring over the next five years. The following is a schedule of minimum future rental payments required under noncancelable operating leases with original terms in excess of one year as of June 30, 2003:

Year ending June 30,	
2004	\$ 138,116
2005	106,818
2006	101,965
	\$ 346,899

Rental expense for 2003 and 2002 amounted to \$192,657 and \$193,400, respectively.

**Becoming Independent  
(A Nonprofit Corporation)**

**Notes to Financial Statements**

**Years Ended June 30, 2003 and 2002**

**Note I. Significant Revenue Sources**

The Organization received a significant percent of total support and revenue for services rendered to clients from the following sources:

	2003	2002
North Bay Regional Center	83%	82%
Santa Rosa Junior College	4%	4%
State of California Department of Rehabilitation	4%	4%

Accounts receivable includes \$748,681 and \$736,652 from these sources at June 30, 2003 and 2002, respectively.

**Note J. Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes or periods:

	2003	2002
Payment of long-term debt	\$ 127,545	\$ 127,545
Payment of insurance	5,285	10,469
Funding for specific purchases	37,110	6,630
Funding for subsequent periods	195,195	179,970
	<b>\$ 365,135</b>	<b>\$ 324,614</b>

**Note K. Reclassifications**

Certain reclassifications have been made to the 2002 financial statements to conform to the classifications adopted for the 2003 financial statements. There was no effect on the increase in net assets.

**Becoming Independent**  
**Functional Expense Detail**  
**Years Ended June 30, 2003 and 2002**

	Year Ended June 30, 2003	Year Ended June 30, 2002	Dollar Change	Percent Change
Salaries, staff	\$ 5,818,884	\$ 5,721,015	\$ 97,869	1.7%
Salaries, clients	270,840	253,615	17,225	6.8%
Employee benefits	707,561	606,497	101,064	16.7%
Payroll taxes	1,137,221	951,231	185,990	19.6%
<b>Subtotal</b>	<b>7,934,506</b>	<b>7,532,358</b>	<b>402,148</b>	<b>5.3%</b>
Professional fees	80,932	78,367	2,565	3.3%
Supplies	179,543	185,368	(5,825)	-3.1%
Supplies, work activities	23,128	22,346	782	3.5%
Vehicle expenses	227,340	224,108	3,232	1.4%
Travel and transportation	136,294	120,954	15,340	12.7%
Rent	192,657	193,400	(743)	-0.4%
Insurance	90,219	55,301	34,918	63.1%
Repairs and maintenance	63,835	102,521	(38,686)	-37.7%
Utilities	66,786	68,260	(1,474)	-2.2%
Telephone	86,265	80,720	5,545	6.9%
Postage and copying	56,051	51,971	4,080	7.9%
Training and conference	46,717	41,273	5,444	13.2%
Interest	82,495	84,530	(2,035)	-2.4%
Fund-raising	48,212	46,289	1,923	4.2%
Marketing	2,268	5,624	(3,356)	-59.7%
Other	56,890	36,109	20,781	57.6%
<b>Subtotal</b>	<b>1,439,632</b>	<b>1,397,141</b>	<b>42,491</b>	<b>3.0%</b>
Depreciation and amortization	262,296	201,238	61,058	30.3%
	<b>\$ 9,636,434</b>	<b>\$ 9,130,737</b>	<b>\$ 505,697</b>	<b>5.5%</b>

## APPENDIX C

### SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

*The following is a summary of certain provisions of the Indenture, the Loan Agreement, the Contract of Insurance, the Regulatory Agreement and the Deed of Trust, which are not described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to the Indenture, the Loan Agreement, the Contract of Insurance, the Deed of Trust and the Regulatory Agreement for a full and complete statement of their provisions. All capitalized terms not defined in this Official Statement have the meaning set forth in the Indenture or in the Regulatory Agreement.*

#### DEFINITIONS OF CERTAIN TERMS

*"Accountant"* means any Independent certified public accountant or firm of such accountants with a national or regional reputation selected by the Corporation and acceptable to the Office, and so long as such Accountant is acceptable to the Office.

*"Act"* means Articles 1 through 4 (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code, as now in effect and as it may from time to time hereafter be amended or supplemented.

*"Additional Payments"* means payments so designated and required to be made by the Corporation pursuant to the Loan Agreement.

*"Adjusted Annual Operating Revenues"* means operating revenue and investment income of the Corporation, less contractual allowances, allowance for bad debts and free services for any Fiscal Year, all as determined in accordance with generally accepted accounting principles.

*"Affiliate"* means a Person which, directly or indirectly through one or more intermediaries, controls, is controlled by or is under common control with the Corporation.

*"Aggregate Debt Service"* means, as of any date of calculation and with respect to any period, the sum of amounts of Debt Service for all Long-Term Indebtedness for such period.

*"ALTA"* means American Land Title Association.

*"Authority"* means the ABAG Finance Authority for Nonprofit Corporations, a joint exercise of powers authority organized and existing under and pursuant to the laws of the State.

*"Authorized Representative"* means, (a) with respect to the Authority, its Chair, any Member, its Secretary or any other person designated as an Authorized Representative of the Authority by a Certificate of the Authority signed by its Chair and filed with the Trustee, (b) with respect to the Corporation, its President, its Chief Executive Officer or any other person designated as an Authorized Representative of the Corporation by a Certificate of the Corporation signed by its President or Chief Executive Officer and filed with the Trustee, and (c) with respect to the Office, the Director of the Office or the Deputy Director of the Cal Mortgage Loan Insurance Division or any other person designated as an Authorized Representative of the Office by a Statement of the Office signed by its Director or the Deputy Director of the Cal Mortgage Loan Insurance Division and filed with the Trustee.

*"Bond Reserve Account"* means the account by that name in the Revenue Fund established pursuant to the Indenture.

*"Bond Reserve Account Requirement"* means, as of any date of calculation, an amount equal to Maximum Annual Bond Service on all Bonds Outstanding as of such date or such larger amount as may be established as the Bond Reserve Account Requirement by any Supplemental Indenture.

*"Board"* means the Board of Directors of the Corporation.

*"Bond Counsel"* means Independent counsel of recognized national standing in the field of obligations the interest on which is excluded from gross income for federal income tax purposes, selected by the Corporation and acceptable to the Authority and the Office.

*"Bonds"* means the ABAG Finance Authority for Nonprofit Corporations Insured Health Facility Revenue Bonds (Becoming Independent), 2004 Series A, issued under the Indenture.

*"Bond Year"* means the period of twelve consecutive months ending on February 1 in any year in which Bonds are Outstanding.

*"Business Day"* means any day other than a Saturday, Sunday, or a day on which banking institutions in the city in which the Principal Corporate Trust Office of the Trustee is located are authorized or obligated by law or executive order to be closed or a day on which the Federal Reserve System is closed.

*"Capital Replacement Amount"* means the amount required to be deposited in each Fiscal Year to the Capital Replacement Fund, which amount shall be (a) \$125,000 for the Fiscal Year commencing on July 1, 2004, and (b) thereafter shall be increased for the next Fiscal Year to the extent there was a percentage increase from the preceding July 1 in the Consumer Price Index, All Urban Consumers, All Items San Francisco-Oakland-San Jose, CA, published by the United States Department of Labor, Bureau of Labor Statistics, such percentage increase, if any, shall be applied to the Capital Replacement Amount of the preceding July 1 and the Capital Replacement Amount shall then be determined by adding the resulting amount to the Capital Replacement Amount of such previous July 1; provided, that in no event shall the Capital Replacement Amount increase by more than ten percent (10%) in one year. Such amount shall be calculated by the Corporation in each year and certified to the Office.

*"Capital Replacement Fund"* means the fund by that name established pursuant to the Regulatory Agreement.

*"CERCLA"* means the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. § 9601 *et seq.*), as heretofore or hereafter amended from time to time.

*"Certificate," "Statement," "Request," "Requisition" and "Order"* of the Authority, the Office or the Corporation mean, respectively, a written certificate, statement, request, requisition or order signed in the name of the Authority by its Chairman, any member of the Commission of the Authority or such other person as may be designated and authorized to sign for the Authority, or in the name of the Corporation or the Office by an Authorized Representative of the Corporation or the Office, respectively, and delivered to the Trustee. Any such instrument and supporting opinions or representations, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or representation, and the two or more so combined shall be read and construed as a single instrument. If and to the extent required by the Indenture, each such instrument shall include the statements provided for in the Indenture.

*"Closing Date"* means the date upon which there is a physical delivery of the Bonds in exchange for the amount representing the purchase of the Bonds by the Original Purchaser.

*"Code"* means the Internal Revenue Code of 1986 and the regulations issued thereunder or any successor thereto. 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, dated the date of issuance and delivery of the Bonds, of the Corporation, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

*"Contract of Insurance"* means that contract of insurance entered into by and among the Corporation, the Office and the Authority dated as of January 1, 2004, as amended, modified and supplemented from time to time.

*"Corporation"* means Becoming Independent, a corporation formed under or subject to the Nonprofit Public Benefit Corporation Law of the State that is organized for the purpose of owning and operating a health facility and that also meets the requirements of section 501(c)(3) of the Code, as required by Insurance Law section 129010(o), and any corporation which may become obligated under the Loan Agreement pursuant to the Regulatory Agreement, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Regulatory Agreement.

*"Costs of Issuance"* means all items of expense directly or indirectly payable by or reimbursable to the Corporation and related to the authorization, issuance, sale and delivery of the Bonds, including but not limited to the upfront premium and certification and inspection fees payable to the Office on the Closing Date, advertising and printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Trustee (including legal fees and charges of its counsel), legal fees and charges, fees and disbursements of consultants and professionals, rating agency fees, fees and charges for preparation, execution, transportation and safekeeping of Bonds, and any other cost, charge or fee in connection with the original issuance of Bonds.

*"Costs of Issuance Fund"* means the fund by that name established pursuant to the Indenture.

*"Debt Service,"* when used with respect to any Long-Term Indebtedness, means, as of any date of calculation and with respect to any period, the sum of

a. the interest falling due on such Long-Term Indebtedness during such period (except to the extent that such interest is payable from the proceeds of such Long-Term Indebtedness set aside for such purpose), and

b. the scheduled principal (or mandatory sinking fund or installment purchase price or lease rental or similar) payments or deposits required with respect to such Long-Term Indebtedness during such period (except to the extent such principal is payable from the proceeds of such Long-Term Indebtedness set aside for such purpose), computed on the assumption that no portion of such Long-Term Indebtedness shall cease to be outstanding during such period except by reason of the application of such scheduled payments, *provided, however,* that for purposes of such computation:

(1) if Long-Term Indebtedness is

(a) secured by an irrevocable letter of credit or irrevocable line of credit issued by a financial institution having a combined capital and surplus of at least fifty million dollars (\$50,000,000) and whose unsecured securities are rated in one of the two highest short-term or long-term Rating Categories (without regard to numerical modifier) by each rating agency then rating the Bonds, or

(b) insured by an insurance policy or surety bond issued by an insurance company rated at least A+ by Alfred M. Best Company in Best's Insurance Reports,

principal payments or deposits with respect to such Long-Term Indebtedness nominally due in the last Fiscal Year in which such Long-Term Indebtedness matures may, at the option of the Corporation, be treated as if they were due as specified in any loan agreement or installment sale/purchase agreement issued in connection with such letter of credit, line of credit, insurance policy or surety bond or pursuant to the repayment provisions of such letter of credit, line of credit, insurance policy or surety bond (or, if such loan agreement or installment sale/purchase agreement or repayment provisions provide for repayment over less than 20 years and the Trustee receives a Statement of the Corporation to the effect that the Corporation intend to refinance such Long-Term Indebtedness prior to maturity, as if they

were amortized over a 20-year period with substantially level debt service) and interest on such Long-Term Indebtedness after such Fiscal Year shall be assumed to be payable at an interest rate equal to a rate per annum equal to the 25-year revenue bond index most recently published preceding the date of calculation in The Bond Buyer (subject to any adjustment for errors therein which may be acknowledged by the publishers thereof);

(2) if interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula, the interest rate on such Long-Term Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to the greater of

(a) the average rate of interest borne (or which would have been borne) by such Long-Term Indebtedness during the Fiscal Year immediately preceding the date of calculation plus one percent (1%), or

(b) the average rate of interest borne by such Long-Term Indebtedness during the three full calendar months immediately preceding the date of calculation plus one percent (1%);

(3) if interest is capitalized with respect to Long-Term Indebtedness, Debt Service on such Long-Term Indebtedness shall be included in computations of Maximum Aggregate Annual Debt Service under the Regulatory Agreement only in proportion to the amount of interest payable in the then-current Fiscal Year from sources other than amounts funded to pay such capitalized interest;

(4) with respect to a Guarantee, there shall be included in the Debt Service of the Corporation

(a) twenty-five percent (25%) of the Corporation's maximum possible monetary liability under the Guarantee in any Fiscal Year unless the Guarantee is drawn upon, and

(b) one hundred percent (100%) of the Corporation's monetary liability under the Guarantee which has been drawn upon, until such time as all amounts drawn upon the Guarantee have been repaid to the Corporation, and for two Fiscal Years thereafter; and

(5) if moneys or Investment Securities described in subsections (1), (2), (5) or (6) of the definition thereof (not callable by the issuer thereof prior to maturity) have been deposited with a trustee or escrow agent in an amount, together with earnings thereon, sufficient to pay the principal of or interest on Long-Term Indebtedness as it comes due, such principal or interest, as the case may be, shall not be included in computations of Debt Service.

*"Deed of Trust"* mean that certain Deed of Trust with Fixture Filing and Security Agreement, dated as of January 1, 2004, to be executed by the Corporation, as trustor, in favor of the Deed Trustee for the benefit of the Office and the Trustee for the benefit of the Owners, as beneficiaries, as amended, modified and supplemented from time to time.

*"Deed Trustee"* means the Person at the time serving as such under the Deed of Trust.

*"Depository"* means The Depository Trust Company and its successors and assigns, or any other Securities Depository selected as set forth in the Indenture, which agrees to follow the procedures required to be followed by such depository in connection with the Bonds.

*"Dissemination Agent"* means the dissemination agent identified in the Continuing Disclosure Certificate.

*"Environmental Claim"* means any accusation, allegation, notice of violation, claim, demand, abatement order or other order or direction (conditional or otherwise) by any governmental authority or any person for any damage, including, without limitation, personal injury (including sickness, disease or death), tangible or intangible property damage, contribution, indemnity, indirect or consequential damages, damage to the environment, nuisance, pollution, contamination or other adverse effects on the environment, or for fines, penalties or restrictions, resulting from or based upon:

a. the existence of a Release (whether sudden or nonsudden or accidental or non-accidental) of, or exposure to, any Hazardous Material, in, into or onto the environment at, in, by, from or related to the Facilities,

b. the use, handling, transportation, storage, treatment or disposal of Hazardous Materials in connection with the operation of the Facilities, or

c. the violation, or alleged violation, of any statutes, ordinances, orders, rules, regulations, permits, licenses or authorizations of or from any governmental authority, agency or court relating to environmental matters connected with the Facilities.

*"Environmental Indemnities"* means the indemnities executed by the Corporation, as indemnitor, in favor of the Office, the Authority, the Trustee and the other parties named therein, as indemnitees, each setting forth certain indemnification obligations relating to Hazardous Materials.

*"Environmental Laws"* means all present and future federal, state or local laws, rules or regulations relating to environmental matters, permits, pollution, waste disposal, industrial hygiene, land use and other requirements of governmental authorities relating to the environment or to any Hazardous Material or Hazardous Material Activity (including, without limitation, CERCLA and the applicable provisions of the California Health and Safety Code and the California Water Code) or the protection of human or animal health or welfare, including, without limitation, those related to any Release or threatened Release of Hazardous Materials and to the generation, use, storage, transportation, or disposal of Hazardous Materials, in any manner applicable to the Corporation or the Facilities.

*"Environmental Regulation"* means any federal, state or local law, statute, code, ordinance, regulation, requirement or rule relating to dangerous, toxic or hazardous pollutants, Hazardous Substances, chemical waste, materials or substances.

*"Event of Default"* means any of the events specified in the Indenture.

*"Facilities"* means (a) the real property described in the Regulatory Agreement and all real property required to be added, from time to time, pursuant to the Regulatory Agreement; (b) all buildings and structures thereon and fixtures and improvements thereto, whether now existing or hereafter constructed, installed or acquired; and (c) all tangible personal property owned by the Corporation, whether now existing or hereafter constructed, installed or acquired, and used in, around or about the aforesaid real property, including but not limited to the personal property described in the Regulatory Agreement.

*"Fiscal Year"* means the period from July 1 to June 30, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Corporation.

*"501(c)(3) Organization"* means an organization described in section 501(c)(3) of the Code.

*"Governmental Unit"* shall have the meaning set forth in section 150 of the Code.

*"Gross Revenue Fund"* means the fund by that name established pursuant to the Loan Agreement.

*"Gross Revenues"* means all revenues, income, receipts and money received in any period by the Corporation (other than donor-restricted gifts, grants, bequests, donations, contributions, and tax revenues), including, but without limiting the generality of the foregoing, the following: (a) gross revenues derived from its operation and possession of and pertaining to its properties, (b) proceeds with respect to, arising from, or relating to its properties and derived from (1) insurance (including business interruption insurance) or condemnation proceeds (except to the extent such proceeds are required by the terms of the Regulatory Agreement or other agreements with respect to the Indebtedness which the Corporation is permitted to incur pursuant to the terms of the Regulatory Agreement) to be used for purposes inconsistent with their use for the payment of Loan Repayments, Additional Payments or similar payments with respect to Parity Debt, (2) accounts, including but not limited to, accounts receivable, (3) securities and other investments, (4) inventory and intangible property, (5) payment/reimbursement programs and agreements, and (6) contract rights, accounts, instruments, claims for the payment of moneys and other rights and assets now or hereafter owned, held or possessed by or on behalf of the Corporation, and (c) rentals received from the lease of the Corporation's properties or space in its facilities.

*"Guarantee"* means any obligation of the Corporation guaranteeing in any manner, whether directly or indirectly, any obligation of any Persons which would, if such Persons were the Corporation, constitute Long-Term Indebtedness.

*"Hazardous Material Activity"* means any actual, proposed or threatened storage, holding, existence, release, emission, discharge, generation, processing, abatement, removal, disposition, handling or transportation of any Hazardous Materials from, under, into or on the Facilities or the Project or surrounding property.

*"Hazardous Materials"* means (a) any chemical, material or substance now or in the future defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous waste," "restricted hazardous waste," "infectious waste," "toxic pollutant" or "toxic substances" or any other term intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, toxicity, reproductive toxicity, "TCLP toxicity," "EP toxicity" or words of similar import under any applicable local, state or federal law or under the regulations adopted or publications promulgated pursuant thereto, including, without limitation, Environmental Laws, (b) any oil, petroleum or petroleum-derived substance, (c) any drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas or geothermal resources, (d) any flammable substances or explosives, (e) any radioactive materials, (f) asbestos in any form which is or could become friable, (g) urea formaldehyde foam insulation, (h) electrical equipment which contains any oil or dielectric fluid containing levels of polychlorinated biphenyls in excess of fifty parts per million, (i) pesticides, and (j) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority as one that may or could pose a hazard to the health and safety of the owners, occupants or any persons in the vicinity of the Facilities.

*"Hazardous Substances"* means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Project or to persons on or about the Project or (ii) cause the Project to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of "waste," "hazardous substances," "hazardous wastes," "hazardous materials," "extremely hazardous waste," "restricted hazardous waste," or "toxic substances" or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act ("RCRA"), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Hazardous Waste Control Law ("HWCL"), Cal. Health & Safety §§ 25100 et seq.; the Hazardous Substance Account Act ("HSAA"), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous

Substances Act, Cal. Health & Safety §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the "Porter-Cologne Act"), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other person coming upon the Project or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

*"Indebtedness"* means (a) any Guarantee, and (b) any indebtedness or obligation of the Corporation (other than accounts payable and accruals), as determined in accordance with generally accepted accounting principles, including obligations under conditional sales contracts or other title retention contracts, and rental obligations under leases which are considered capital leases under generally accepted accounting principles. Indebtedness shall not include Non-recourse Indebtedness.

*"Indenture"* means that certain Indenture, dated as of January 1, 2004, by and between the Authority and the Trustee, as amended, modified and supplemented from time to time.

*"Independent,"* when referring to an Accountant, Counsel, Management Consultant or Person, means an Accountant, Counsel, Management Consultant or Person who (a) is independent of and not under the control of the Corporation, (b) does not have any substantial interest, direct or indirect, in the Corporation, and (c) in the case of an individual, is not connected, including through a spouse, with the Corporation as a director, officer or employee of the Corporation, and in the case of a firm, is not connected with the Corporation as a partner, director, officer or employee of the Corporation, but who may be regularly retained by the Corporation.

*"Information Services"* means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, NJ 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New York, NY 10006; Moody's "Municipal and Government," 5250 77 Center Drive, Suite 150, Charlotte, NC 28217, Attention: Municipal News Reports; and Standard and Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, NY 10004; or to such other addresses and/or such other services providing information with respect to called bonds as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

*"Insurance and Condemnation Proceeds Fund"* means the fund by that name established pursuant to the Indenture.

*"Insurance Law"* means Chapter 1. Part 6. Division 107 of the Health and Safety Code of the State, cited as the "California Health Facility Construction Loan Insurance Law" as now in effect and as it may from time to time hereafter be amended or supplemented.

*"Insurance Trustee"* means The Bank of New York.

*"Insurer"* means Radian Asset Assurance Inc., a corporation organized under the laws of the State of New York or any successor thereto.

*"Interest Account"* means the account by that name in the Revenue Fund established pursuant to the Indenture.

*"Interest Payment Date"* means February 1 and August 1 of each year, commencing August 1, 2004.

*"Investment Securities"* means any of the following:

(a) Certificates or interest-bearing notes or obligations of the United States, or those for which the full faith and credit of the United States are pledged for the payment of principal and interest.

(b) Investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (i) direct obligations or fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States, (ii) debentures of the Federal Housing Administration, (iii) guaranteed mortgage backed bonds of the Government National Mortgage Association, (iv) certificates of beneficial interest of the Farmers Home Administration, (v) obligations of the Federal Financing Bank or (vi) project notes and local authority bonds of the Department of Housing and Urban Development.

(c) Investments in (i) senior obligations of the Federal Home Loan Bank System, (ii) participation certificates or senior debt obligations of the Federal Home Loan Mortgage Corporation, (iii) mortgage-backed securities and senior debt obligations (excluding stripped mortgage securities that are valued greater than par on the portion of unpaid principal) of the Federal National Mortgage Association or (iv) senior debt obligations of the Student Loan Marketing Association.

(d) Repurchase agreements with primary dealers and/or banks rated, at all times, AA and AA2 or better by Standard & Poor's Corporation and Moody's Investors Service, Inc., respectively, collateralized with the obligations described in (i) or (ii) above, held by a third party custodian, at the levels set forth below, which repurchase agreements have been approved by the Insurer.

(e) S.E.C. registered money market mutual funds conforming to Rule 2a-7 of the Investment Company Act of 1940 that invest primarily in direct obligations issued by the U.S. Treasury and repurchase agreements backed by those obligations, including funds for which the Trustee or an affiliate of the Trustee acts as an advisor, and rated in the highest category by Standard & Poor's Corporation and Moody's Investors Service, Inc.

(f) Certificates of deposit of any bank (including the Trustee), trust company or savings and loan association whose short term obligations are rated, at all times, A-1 or better by Standard & Poor's Corporation and P-1 by Moody's Investors Service, Inc. provided that such certificates of deposit are fully secured by the obligations described in (a) or (b) above, at the levels set forth below, the Trustee has a perfected first security interest in the obligations securing the certificates and the Trustee holds (or shall have the option to appoint a bank, trust company or savings and loan association as its agent to hold) the obligations securing the certificates.

(g) Certificates of deposit of any bank (including the Trustee), trust company or savings and loan association which certificates are fully insured by the Federal Deposit Insurance Corporation.

(h) Commercial paper rated, at all times, P-1 or better by Moody's Investors Service, Inc. and A-1+ by Standard & Poor's Corporation.

(i) Obligations of, or obligations fully guaranteed by, any state of the United States of America or any political subdivision thereof which obligations, at all times, are rated by Standard & Poor's Corporation and Moody's Investors Service, Inc. in the highest rating categories (without regard to any refinement or graduation of rating category by numerical modifier or otherwise) and without regard to credit enhancement assigned by such rating agencies to obligations of that nature.

Collateral Levels for United States Government Securities:

<i>Frequency of Valuation</i>	<u>REMAINING MATURITY</u>				
	<u>1 Year or less</u>	<u>5 Years or less</u>	<u>10 Years or less</u>	<u>15 Years or less</u>	<u>30 Years or less</u>
Daily	102	105	106	107	113
Weekly	103	110	111	113	118
Monthly	106	116	119	123	130
Quarterly	106	118	128	130	135

Further Requirements: (1) On each valuation date the market value of the collateral will be an amount equal to the requisite collateral percentage of the obligation (including unpaid accrued interest) that is being secured. (2) In the event the collateral level is below its collateral percentage on a valuation date, such percentage shall be restored within the following restoration periods: One business day for daily valuations, two business days for weekly valuations, and one month for monthly and quarterly valuations. The use of different restoration periods affect the requisite collateral percentage. (3) The Trustee must terminate the repurchase agreement upon a failure to maintain the requisite collateral percentage after the restoration period and, if not paid by the counterparty in federal funds against transfer of the repo securities, liquidate the collateral.

*"Loan Agreement"* means that certain Loan Agreement, dated as of January 1, 2004, by and between the Authority and the Corporation, as amended, modified and supplemented from time to time.

*"Loan Default Event"* means any of the events specified in the Loan Agreement.

*"Loan Repayments"* means the payments so designated and required to be made by the Corporation pursuant to the Loan Agreement.

*"Long-Term Indebtedness"* means Indebtedness having an original maturity greater than one (1) year or renewable at the option of the Corporation for a period greater than one (1) year from the date of original incurrence or issuance thereof unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each calendar year.

*"Management Agent"* means that Person or those Persons with whom the Corporation has entered into a contract for managerial services, relating to the management or operation of all or substantially all of the Facilities. In the event the Corporation does not have a separate management contract, then *"Management Agent"* shall mean all of those Persons serving as the Corporation's chief executive officer, chief financial officer, chief operating officer, or other similar officers. In the event the Corporation does not have such officers, then *"Management Agent"* shall mean all of those Persons that manage or operate all or substantially all of the Facilities.

*"Management Consultant"* means an Independent Person of national or regional reputation qualified to report on questions relating to the financial condition and projections of health facilities, selected by the Corporation and acceptable to the Office and so long as such Management Consultant is acceptable to the Office.

*"Mandatory Sinking Account Payment"* means, with respect to Term Bonds of any maturity, the amount required by the Indenture to be paid on any single date for the retirement of Term Bonds of such maturity.

*"Maximum Aggregate Annual Debt Service"* means, as of any date of calculation, the Aggregate Debt Service as computed for the then current or any future Fiscal Year in which such sum shall be largest.

*"Maximum Annual Bond Service"* means, as of any date of calculation, the sum of (a) the interest falling due on then Outstanding Bonds (assuming that all then Outstanding Serial Bonds are retired on their respective maturity dates and that all then Outstanding Term Bonds are retired at the times and in the amounts provided for by Mandatory Sinking Account Payments), (b) the principal amount of then Outstanding Serial Bonds falling due by their terms, and (c) the aggregate amount of all Mandatory Sinking Account Payments required; all as computed for the Bond Year in which such sum shall be largest.

*"Maximum Annual Debt Service,"* when used with respect to any item of Long-Term Indebtedness, means, as of any date of calculation, the maximum amount of Debt Service to become due on such Long-Term Indebtedness in the current or any future Fiscal Year after the date of calculation.

*"Moody's"* means Moody's Investors Service, a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.

*"Net Income Available for Debt Service"* means, with respect to any period, the excess of revenues (including non-operating revenues) over expenses from operations of the Corporation for such period, determined in accordance with generally accepted accounting principles, to which shall be added interest, amortization, depreciation expense and other non-cash charges, each item determined in accordance with generally accepted accounting principles, and excluding

a. any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets or resulting from the early extinguishment of debt,

b. gifts, grants, bequests, donations and contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Debt Service or operating expenses, and

c. the net proceeds of insurance (other than business interruption insurance) and condemnation awards.

*"Non-recourse Indebtedness"* means any indebtedness of the Corporation, which is not a general obligation of the Corporation and is secured by a lien on property of the Corporation, liability for which is effectively limited to the property subject to such lien (which property is not integral to the operation of the Facilities) with no recourse, directly or indirectly, to any other property of the Corporation.

*"Office"* means the Office of Statewide Health Planning and Development of the Health and Human Services Agency of the State, or its successors.

*"Opinion of Counsel"* means a written opinion of counsel (including, without limitation, counsel for the Authority) selected by the Authority and delivered to the Trustee. If and to the extent required by the provisions of the Indenture, each Opinion of Counsel shall include the statements provided for in the Indenture.

*"Optional Redemption Account"* means the account by that name in the Redemption Fund established pursuant to the Indenture.

*"Original Purchaser"* means the original purchaser of the Bonds.

*"Outstanding,"* when used as of any particular time with reference to Bonds, means (subject to the provisions of the Indenture) all Bonds theretofore, or thereupon being, authenticated and delivered by the Trustee under the Indenture except (a) Bonds theretofore canceled by the Trustee or surrendered to the Trustee for cancellation; (b) Bonds with respect to which all liability of the Authority shall have been discharged in accordance with the Indenture, including Bonds (or portions of Bonds) referred to in the Indenture; and (c) Bonds for the transfer or exchange of or in lieu of or in substitution for which other Bonds shall have been authenticated and delivered by the Trustee pursuant to the Indenture.

*"Owner" or "Bondowner,"* whenever used in the Indenture with respect to a Bond, means the Person in whose name such Bond is registered.

*"Parity Debt"* means Long-Term Indebtedness which is incurred by the Corporation in accordance with the provisions of the Regulatory Agreement and secured equally and ratably with the obligations of the Corporation under the Loan Agreement by a lien on and security interest in the Gross Revenues and the Deed of Trust.

*"Permitted Encumbrances"* means and includes:

a. undetermined liens and charges incident to construction or maintenance, and liens and charges incident to construction or maintenance now or hereafter filed of record which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Corporation shall have set aside reserves with respect thereto which, in the opinion of the Office, are adequate;

b. notices of *lis pendens* or other notices of or Liens with respect to pending actions which are being contested in good faith and have not proceeded to final judgment (and for which all applicable periods for appeal or review have not expired), provided that the Corporation shall have set aside reserves with respect thereto which, in the opinion of the Office, are adequate;

c. the lien of taxes and assessments which are not delinquent, or, if delinquent, are being contested in good faith, provided that the Corporation shall have set aside reserves with respect thereto which, in the opinion of the Board, are adequate;

d. minor defects and irregularities in title to the Facilities which in the aggregate do not materially adversely affect the value or operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

e. easements, exceptions or reservations for the purpose of ingress and egress, parking, pipelines, telephone lines, telegraph lines, power lines and substations, roads, streets, alleys, highways, railroad purposes, drainage and sewerage purposes, dikes, canals, laterals, ditches, the removal of oil, gas, coal or other minerals, and other like purposes, or for the joint or common use of real property, facilities and equipment, which in the aggregate do not materially interfere with or impair the operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

f. rights reserved to or vested in any municipality or governmental or other public authority to control or regulate or use in any manner any portion of the Facilities which do not materially impair the operation of the Facilities for the purposes for which they are or may reasonably be expected to be used;

g. present or future valid zoning laws and ordinances;

h. the rights of the Authority, the Corporation, the Office, the Trustee and holders of Parity Debt under the Loan Agreement, the Indenture, the Regulatory Agreement and the Deed of Trust and the lien and charge of the Indenture, the Regulatory Agreement and the Deed of Trust;

i. liens securing indebtedness for the payment, redemption or satisfaction of which money (or evidences of indebtedness) in the necessary amount shall have been deposited in trust with a trustee or other holder of such indebtedness;

j. purchase money security interests and security interests existing on any personal property prior to the time of its acquisition by the Corporation through purchase, merger, consolidation or otherwise, whether or not assumed by the Corporation, or placed upon property being acquired by the Corporation to secure a portion of the purchase price thereof, or lessor's interests in leases required to be capitalized in accordance with generally accepted accounting principles;

k. statutory liens arising in the ordinary course of business which are not delinquent or are being contested in good faith by the Corporation;

l. the lease or license of the use of a part of the Facilities for use in performing professional or other services necessary for the proper and economical operation of the Facilities in accordance with customary business practices in the health care industry;

m. liens or encumbrances existing as of the date of initial execution and delivery of the Bonds as listed in the Regulatory Agreement;

n. liens securing Parity Debt on a parity with the obligations of the Corporation under the Regulatory Agreement;

o. statutory rights of the United States of America to recover against the Corporation by reason of federal funds made available under 42 U.S.C. §291 *et seq.*, and similar rights under other federal and state statutes; and

p. other liens and encumbrances specifically approved in writing by the Office.

*"Person"* means a person, individual, company, firm, association, organization, partnership, trust, corporation or other legal entity or group of entities, including a governmental entity or any agency or political subdivision thereof.

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

*"Principal Account"* means the account by that name in the Revenue Fund established pursuant to the Indenture.

*"Principal Corporate Trust Office"* means the office of the Trustee at 1420 Fifth Avenue, 7th Floor, Seattle, WA 98101, or such other or additional offices as may be specified to the Authority by the Trustee except that, with respect to presentation of Bonds for payment or for registration of transfer and exchange, such term shall mean the office or agency of the Trustee at which at any particular time, its corporate trust agency shall be conducted, or such other office designated by the Trustee from time to time, or at such other or additional offices as may be specified by the Trustee in writing to the Authority.

*"Project"* means (a) the financing the costs of improvements to a an approximately 15,400 square foot building located at 1425 Corporate Center Parkway, in Santa Rosa, California, and (b) the refinancing of the costs of (i) the acquisition and renovation of real property and an approximately 23,000 square foot building thereon located at 1455 Corporate Center Parkway, in Santa Rosa, California (the "Facility"), (ii) the renovation of the Facility, and (iii) the acquisition of approximately 1.9 acres of land adjacent to the Facility, all owned and operated by the Corporation in connection with its provision of services to adults with developmental disabilities.

*"Project Fund"* means the fund by that name established pursuant to the Indenture.

*"Rating Category"* means (a) with respect to any long-term rating category, all ratings designated by a particular letter or combination of letters, without regard to any numerical modifier, plus or minus sign or other modifier and (b) with respect to any short-term or commercial paper rating category, all ratings designated by a particular letter or combination of letters and taking into account any numerical modifier, but not any plus or minus sign or other modifier.

*"Rebate Fund"* means the Rebate Fund established in the Indenture.

*"Record Date"* means, with respect to any Interest Payment Date for the Bonds, the fifteenth (15th) day of the calendar month preceding such Interest Payment Date.

*"Redemption Fund"* means the fund by that name established pursuant to the Indenture.

*"Redemption Price"* means, with respect to any Bond (or portion thereof), the principal amount of such Bond (or portion thereof) plus the applicable premium, if any, payable upon redemption thereof pursuant to the provisions of such Bond and the Indenture.

*"Regulatory Agreement"* means that certain Regulatory Agreement, dated as of January 1, 2004, among the Authority, the Office and the Corporation, as originally executed and as amended from time to time in accordance with its terms.

*"Release"* means any release, spill, emission, leaking, pumping, pouring, injection, escaping, deposit, disposal, discharge, dispersal, leaching, or migration into the indoor or outdoor environment (including, without limitation, the abandonment or disposal of any barrels, containers or other closed receptacles containing any Hazardous Materials), or into or out of the Facilities, including the movement of any Hazardous Material through the air, soil, surface water, groundwater or property.

*"Revenue Fund"* means the fund by that name established pursuant to the Indenture.

*"Revenues"* means all amounts received by the Authority or the Trustee pursuant or with respect to the Loan Agreement, including, without limiting the generality of the foregoing, Loan Repayments (including both timely and delinquent payments and any late charges, and regardless of source), prepayments, insurance proceeds, payments received pursuant to the Insurance Law, condemnation proceeds, and all interest, profits or other income derived from the investment of amounts in any fund or account established pursuant to the Indenture, but not including any amounts paid to the Authority or the Trustee pursuant to rights of indemnification or any Additional Payments due to the Trustee.

*"Risk Management Consultant"* means an Independent Person having experience and a favorable reputation in consulting on the insurance requirements of health facilities in the State of the general size and character of the Facilities, selected by the Corporation and acceptable to the Office, and so long as such Risk Management Consultant is acceptable to the Office.

*"S&P"* means Standard & Poor's Ratings Services, 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, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.

*"Securities Depositories"* means The Depository Trust Company, 711 Stewart Avenue, Garden City, NY 11530, Fax (516) 227-4070 or 4164 or, in accordance with the then current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories, or to no such depositories, as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

*"Serial Bonds"* means the Bonds, falling due by their terms in specified years, for which no Mandatory Sinking Account Payments are provided.

*"Short-Term Indebtedness"* means Indebtedness having an original maturity less than or equal to one year and not renewable at the option of the Corporation for a term greater than one year from the date of original incurrence or issuance unless, by the terms of such Indebtedness, no Short-Term Indebtedness is permitted to be outstanding thereunder for a period of at least thirty (30) consecutive days during each calendar year.

*"Sinking Accounts"* means the subaccounts in the Principal Account so designated and established pursuant to the Indenture.

*"Special Record Date"* means the date established by the Trustee pursuant to the Indenture as a record date for the payment of defaulted interest on Bonds.

*"Special Redemption Account"* means the account by that name in the Redemption Fund established pursuant to the Indenture.

*"State"* means the State of California.

*"Statement"* means a written certification, certificate or statement or other appropriate written instrument normally provided in the applicable circumstance where required by the Regulatory Agreement to be provided or delivered by the Accountant, counsel, insurance agent, the Insurance Consultant, the Management Consultant, the Corporation, the Office or other appropriate Person. The Statement shall be dated and signed by a person authorized to execute the Statement.

*"Supplemental Indenture"* means any indenture hereafter duly authorized and entered into between the Authority and the Trustee, supplementing, modifying or amending the Indenture; but only if and to the extent that such Supplemental Indenture is specifically authorized under the Indenture.

*"Tax Agreement"* means the Tax Certificate and Agreement with respect to the Bonds executed and delivered by the Authority and the Corporation, as originally executed and as the same may be amended and supplemented from time to time in accordance with the terms thereof.

*"Term Bonds"* means the Bonds payable at or before their specified maturity date or dates from Mandatory Sinking Account Payments established for that purpose and calculated to retire such Bonds on or before their specified maturity date or dates.

*"Trustee"* means U.S. Bank National Association, as trustee, together with the Trustee's permitted successors as trustee, under the Indenture.

*"Unrelated Trade or Business"* shall have the meaning set forth in section 513(a) of the Code.

## LOAN AGREEMENT

The Loan Agreement provides the terms of the loan of Bond proceeds to the Corporation and the repayment of and security for such loan provided by the Corporation. Certain of the provisions of the Loan Agreement are summarized below. *This summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Loan Agreement.*

### **Loan Repayments**

The principal of and interest on the loan of the proceeds of the Bonds under the Loan Agreement will be repaid by means of Loan Repayments, which the Corporation agrees to pay to the Trustee, as assignee of the Authority, for deposit in the Revenue Fund. The Loan Repayments will be due and payable in monthly installments on the first day of each month. Each Loan Repayment shall be in an amount equal to the amount required by the Trustee to make the transfers and deposits required in such month by the Indenture (see "INDENTURE--Allocation of Revenue"), taking into account any other funds in the Revenue Fund available for such deposits. Notwithstanding the foregoing, if five business days prior to any interest or principal payment date with respect to the Bonds, the aggregate amount in the Revenue Fund (other than the Bond Reserve Account) is for any reason insufficient or unavailable to make the required payments of principal (or redemption price) of or interest on the Bonds then becoming due (whether by maturity, redemption or acceleration), the Corporation shall forthwith pay the amount of any such deficiency to the Trustee.

### **Additional Payments**

In addition to Loan Repayments, the Corporation shall also pay to the Authority or to the Trustee, as the case may be, "Additional Payments", as follows: (1) all taxes and assessments charged to the Authority or the Trustee affecting the amount available to the Authority or Trustee from payments to be received under the Loan Agreement or arising due to the transactions contemplated thereby; (2) all reasonable fees, charges and expenses of the Trustee for services rendered under the Indenture (3) the reasonable fees and expenses of such accountants, consultants, attorneys and other experts engaged by the Authority or the Trustee to provide services required under the Loan Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust, the Bonds or the Indenture; (4) the reasonable fees and expenses of the Authority or any State agency selected by the

Authority to act on its behalf in connection with the Loan Agreement, the Contract of Insurance, the Regulatory Agreement, the Deed of Trust, the Bonds or the Indenture; and (5) all other reasonable and necessary fees and expenses of the Authority attributable to the Loan Agreement. Such Additional Payments shall be billed to the Corporation by the Authority or the Trustee from time to time. The Corporation shall pay Additional Payments within 30 days after receipt of the bill.

### **Gross Revenue**

The Corporation agrees that, so long as any of the Loan Repayments remain unpaid, all of the Gross Revenues of the Corporation shall be deposited as soon as practicable upon receipt in a fund designated as the 'Gross Revenue Fund' which the Corporation shall establish and maintain in an account or accounts at such banking institution or institutions as the Corporation shall from time to time designate in writing to the Trustee and to the Office for such purpose (the 'Depository Bank(s)'). Subject only to the provisions of the Loan Agreement permitting the application thereof for the purposes and on the terms and conditions set forth therein, the Corporation thereby pledges, and to the extent permitted by law grants a security interest to the Trustee and to the Office in, the Gross Revenue Fund and all of the Gross Revenues of the Corporation to secure the payment of Loan Repayments and the performance by the Corporation of its other obligations under the Loan Agreement and the Regulatory Agreement and with respect to Parity Debt.

Amounts in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as provided in the Loan Agreement. In the event that the Corporation is delinquent for more than one Business Day in the payment of any Loan Repayment or any payment required with respect to Parity Debt, the Authority or the Trustee shall notify the Corporation, the Office and the Depository Bank(s) of such delinquency, and, unless such Loan Repayment or payment with respect to Parity Debt is paid within ten days after receipt of such notice, the Corporation shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Trustee, but only with the consent of the Office (provided that such consent shall be required only if the Contract of Insurance is in effect and the Office is not in default thereunder). All Gross Revenues of the Corporation shall continue to be deposited in the Gross Revenue Fund as provided above in this paragraph but to the name and credit of the Trustee until the amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all Loan Repayments and payments with respect to Parity Debt in default and all other Loan Default Events and events of default with respect to Parity Debt known to the Trustee shall have been made good or cured to the satisfaction of the Trustee or provision deemed by the Trustee to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the Corporation. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Trustee shall use and withdraw amounts in said fund from time to time to make Loan Repayments, Additional Payments, and the other payments required of the Corporation under the Loan Agreement or with respect to any Parity Debt as such payments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of Loan Repayments and Debt Service on such Parity Debt ratably, according to the amounts due respectively for Loan Repayments and such Debt Service, without any discrimination or preference, and to such other payments in the order which the Trustee, in its discretion, shall determine to be in the best interests of the holders of the Bonds and such Parity Debt, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Trustee, the Corporation shall not be entitled to use or withdraw any of the Gross Revenues of the Corporation unless and to the extent that the Trustee at its sole discretion (or as directed by the Office) so directs for the payment of current or past due operating expenses of the Corporation; provided, however, that the Corporation shall be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues of the Corporation. The Corporation agrees that a failure to comply with the terms of the section in the Loan Agreement relating to the Gross Revenue Fund shall cause irreparable harm to the holders from time to time of the Bonds and of Parity Debt, and shall entitle the Trustee, with or without notice to the Corporation but with the consent of the Office (provided that such consent shall be required only if the Contract of Insurance is in effect and the Office is not in default thereunder), to take immediate

action to compel the specific performance of the obligations of the Corporation as provided in the Loan Agreement.

### **Unconditional Obligations of the Corporation; Net Contract**

The obligations of the Corporation to make the Loan Repayments and Additional Payments and to perform and observe the other agreements on its part under the Loan Agreement are absolute and unconditional.

### **Prepayments**

Under the Loan Agreement, the Corporation shall have the right at any time or from time to time to prepay all or any part of the Loan Repayments. All such prepayments (and the additional payment of any amount necessary to pay the applicable premiums, if any, payable upon the redemption of the Bonds) shall be deposited in the Redemption Fund and, used for the redemption or purchase of Outstanding Bonds as set forth in the Indenture.

### **Maintenance of the Facilities**

The Corporation shall maintain or cause to be maintained, throughout the term of the Loan Agreement, the Facilities as specified in the Regulatory Agreement.

### **Maintenance of Existence; Affiliation, Merger, Consolidation, Sale or Transfer**

The Corporation shall maintain or cause to be maintained, throughout the term of the Loan Agreement, its existence and shall enter into agreements for affiliation, merger, consolidation, sale or transfer only as permitted in the Regulatory Agreement.

### **Rates and Charges; Debt Coverage**

The Corporation shall fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rates, fees and charges as are required by the Regulatory Agreement.

### **Limitation on Encumbrances**

The Corporation shall not create, assume or suffer to exist and shall immediately satisfy or release any mortgage, deed of trust, pledge, security interest, encumbrance, lien, attachment or charge of any kind (including the charge upon property purchased under conditional sales or other title retention agreements) (a "security interest") upon the Facilities or the Gross Revenues, except as permitted by the Regulatory Agreement.

### **Limitation on Indebtedness**

The Corporation shall not incur any indebtedness or financial obligations, including without limitation, by borrowing money, by assuming or guaranteeing the obligations of others, and by entering into installment purchase contracts or leases required to be capitalized in accordance with generally accepted accounting principles, except as permitted by the Regulatory Agreement.

### **Limitations on Disposition of Property**

The Corporation shall not dispose of any cash or cash equivalents, shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of its real property, and shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the Facilities, except as permitted by the Regulatory Agreement.

### **Limitation on Acquisition of Property**

The Corporation shall not acquire additional property, plant and equipment (except (1) in the ordinary course of business, (2) with the proceeds of indebtedness permitted by the Loan Agreement, or (3) as part of a merger or consolidation permitted by Loan Agreement) by gift (other than unrestricted gifts of cash or unencumbered personal property), purchase, construction, merger or consolidation, except as permitted by the Regulatory Agreement.

### **Accounting Records, Financial Statements and Budget**

The Corporation shall at all times keep, or cause to be kept, proper books of record and account, prepared in accordance with generally accepted accounting principles, in which complete and accurate entries shall be made of all transactions of or in relation to the business, properties and operations of the Corporation. Such books of record and account shall be available for inspection by the Authority, the Office and the Trustee at reasonable hours and under reasonable circumstances, all in accordance with the Regulatory Agreement.

### **Licensing**

Under the Loan Agreement, the Corporation agrees to maintain all permits, licenses and other governmental approvals necessary for the operation of the Facilities.

### **Tax Covenants**

*Covenant to Maintain Status of Corporation.* The Corporation covenants to maintain its status as an organization described in section 501(c)(3) of the Code.

*Corporation Ownership of Financed Property.* The Corporation covenants that all property provided with the proceeds of the Bonds will be owned (as ownership is determined for purposes of federal income taxation) by the Corporation, by an organization described in section 501(c)(3) of the Code or by a governmental unit.

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

*No Unrelated Activities.* The Corporation covenants that no part of the portion of the Project financed with the Bonds will be used for (i) activities constituting unrelated trades or businesses, determined by applying section 513(a) of the Code, or (ii) activities constituting any trade or business of an entity other than a organization described in section 510(c)(3) of the Code or a governmental unit, if such use adversely affects the exclusion from gross income for federal income tax purposes of interest on the Bonds.

*Costs of Issuance Limitation.* The Corporation covenants that no portion of the proceeds of the Bonds will be used for costs of issuance of the Bonds in excess of an amount equal to two percent (2%) of the principal amount of the Bonds, less original issue discount (if any) on the Bonds, all within the meaning of section 147(g)(1) of the Code.

*Expenditure of Proceeds to Assure Qualified 501(c)(3) Bonds.* The Corporation shall assure that the proceeds of the Bonds are expended so as to cause the Bonds to constitute "qualified 501(c)(3) bonds" within the meaning of section 145 of the Code.

*Federal Guarantee Prohibition.* The Corporation shall not knowingly take any action or knowingly permit or suffer any action to be taken if the result of the same would be to cause the Bonds to be “federally guaranteed” within the meaning of section 149(b) of the Code.

*Useful Life.* The Corporation represents and warrants that, within the meaning of section 147(a)(14) of the Code, the average maturity of the Bonds does not exceed 120 percent of the average reasonably expected economic life of the facilities being financed with the proceeds of the Bonds.

*\$150,000,000 Limitation.* The Corporation covenants to comply with the provisions of section 145(b) of the Code so as to assure that the aggregate amount of bonds allocated to the Corporation does not exceed the limits specified in that section.

*Income Regulatory Agreement.* In order to maintain the exclusion from the gross income of the owners thereof for purposes of federal income taxation of interest on the Bonds, and to assure compliance with the laws of the State, including the Act, the Corporation agrees that it shall, concurrently with or before the execution and delivery of the Bonds, execute and deliver and cause to be recorded the Income Regulatory Agreement.

The Corporation shall comply with every term of the Income Regulatory Agreement, and the Corporation acknowledges that in the event of a default under the Income Regulatory Agreement which is not cured, the Loan may be accelerated. The Corporation agrees to cause any amendments to the Income Regulatory Agreement to be recorded in the appropriate official public records. The books and records of the Corporation pertaining to the incomes of and rents charged to Qualifying Tenants shall be open to inspection by any authorized representative of the Authority and the Trustee. In any event, however, the Trustee may rely, without further investigation or review, upon such books and records and all certificates and statements in connection therewith.

#### **Covenants Relating to the Insurer**

*Reporting Requirements.* The Corporation covenants and agrees to provide notification to the Insurer in the event of any significant change in the financial condition of the Corporation and agrees to deliver its annual audited financial statements to the Insurer within 120 days after the end of each Fiscal Year.

The Corporation will permit the Insurer and/or the Insurance Trustee to discuss the affairs, finances and accounts of the Corporation or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Corporation. The Corporation will permit the Insurer and/or the Insurance Trustee to have access to and make copies of all books and records relating to the Bonds and the security therefor at any reasonable time.

*Reimbursement.* The Corporation shall pay or reimburse the Insurer any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with the (i) administration, enforcement, defense, or preservation of any rights or security hereunder or under the Indenture; (ii) the pursuit of any remedies hereunder or under the Indenture or otherwise afforded by law or equity, (iii) any amendment, waiver, or other action with respect to or related to this Loan Agreement or the Indenture whether or not executed or completed, (iv) the violation by the Corporation of any law, rule, or regulation or any judgment, order or decree applicable to it, or (v) any litigation or other dispute in connection with this Loan Agreement or the Indenture or the transactions contemplated hereby and thereby, other than amounts resulting from the failure of the Insurer to honor its payment obligations under the Policy. The Insurer reserves the right to charge an administrative fee of \$2,500 as a condition to executing any amendment, waiver or consent proposed in respect of any document or action taken after Closing Date in connection with the Bonds, the Loan Agreement or the Indenture. The Insurer reserves the right to require the payment of the reasonable fees and expenses of its counsel or other agents as a condition to executing any amendment, waiver or consent proposed in respect of any document or action taken after Closing Date in connection with the Bonds. All requests for any such amendments, waivers or consents shall be in writing and accompanied by the payment of such administrative fee and directed to Radian Asset Assurance Inc., 335 Madison Avenue, New York, NY 10017, Attention: Risk Management Department. The

obligations of the Corporation to the Insurer shall survive discharge and termination of this Loan Agreement.

*Indemnification.* The Corporation shall protect, hold harmless and indemnify the Insurer for, from and against any and all liability, obligations, losses, claims and damages paid or incurred in connection with its business or properties, this Loan Agreement, the Indenture and any related instrument (including all environmental liabilities regarding its properties, except that the Corporation shall not protect, hold harmless or indemnify the Insurer for the willful or wanton acts or omissions, mistakes, gross negligence of the Insurer, to the extent that such acts, omissions, mistakes, gross negligence of such party are successfully alleged to have caused the liability, obligation, loss, claim or damage) and expenses in connection herewith including reasonable attorneys' fees and expenses. The obligations of the Corporation to the Insurer shall survive discharge and termination of this Loan Agreement.

*Parties in Interest.* The Insurer is and shall be a third party beneficiary of this Loan Agreement.

### **Continuing Disclosure**

The Corporation agrees that it will comply with and carry out all of the provisions of the Continuing Disclosure Agreement. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the Continuing Disclosure Agreement shall not be considered a Loan Default Event; however, the Trustee shall (and, at the request of any Participating Underwriter (as defined in the Continuing Disclosure Agreement) at the request of the Holders of at least 25% aggregate principal amount in Outstanding Bonds, shall) or any Bondholder or Beneficial Owner may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Corporation to comply with its continuing disclosure obligations. For purposes of this paragraph, "Beneficial Owner" means any person which has or shares the power, directly or indirectly, to make investment decisions concerning ownership of any Bonds (including persons holding Bonds through nominees, depositories or other intermediaries).

### **Insurance Required**

The Corporation shall maintain or cause to be maintained throughout the term of the Loan Agreement, property, builders risk, boiler and machinery, commercial general liability, automobile, professional liability, fidelity, business interruption, extra expense, directors and officers, workers' compensation and title insurance in the amounts and subject to the other conditions relating thereto as specified in the Regulatory Agreement.

### **Disposition of Insurance and Condemnation Proceeds**

The proceeds of insurance maintained by the Corporation against loss or damage by fire, lightning, vandalism, malicious mischief and all other risks covered by the extended coverage insurance endorsement then in use in the State or against loss or damage by risks covered by builders' risk insurance, the proceeds of any title insurance and the proceeds of any condemnation awards with respect to the Facilities, shall be applied in accordance with the provisions of the Regulatory Agreement.

### **Nonliability of Authority**

The Authority shall not be obligated to pay the principal of, and premium, if any, and interest on the Bonds, except from Revenues. Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof is pledged to the payment of the principal of or premium, if any, or interest on the Bonds.

### **Indemnification**

The Corporation shall indemnify and hold harmless the Authority and the Trustee and each such entity's officers, employees and agents from and against any and all losses, claims, damages,

liabilities or expenses, of every conceivable kind, character and nature whatsoever (excepting therefrom only such losses, claims, damages, liabilities or expenses arising from (i) the gross negligence or willful misconduct of the Authority or its officers, employees or agents, and (ii) the negligence, default, bad faith or willful misconduct of the Trustee or its officers, employees and agents, respectively), including, but not limited to, losses, claims, damages, liabilities or expenses arising out of, resulting from or in any way connected with: (1) the Project, or the conditions, occupancy, use, possession, conduct or management of, work done in or about, or from the planning, design, acquisition, installation or construction, of the Project or any part thereof, including, without limitation, losses, claims, damages, liabilities, fees, penalties or reasonable expenses arising out of, resulting from or in any way relating to any generation, processing, handling, transportation, storage, treatment or disposal of solid wastes, Hazardous Materials or any other Hazardous Material Activity relating to the Property or the Project including, but not limited to, any of those activities occurring, to occur or having previously occurred on the Property or the Project and any Releases on, under or from the Property or the Project to the extent occurring or existing prior to the execution and delivery of the Loan Agreement; (2) the issuance of any Bonds or the carrying out of any of the transactions contemplated by the Bonds, the Loan Agreement, the Indenture or any related document; (3) any untrue statement or alleged untrue statement of any material fact, or any omission to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading, in any official statement or other offering circular utilized by the Authority in connection with the sale of the Bonds; or (4) with respect to the Trustee, the acceptance or administration of the trusts granted under the Indenture so long as such trusts are discharged in good faith in accordance with the provisions of the Indenture. The Corporation shall pay or reimburse the Authority and the Trustee and each such entity's officers, employees and agents for any and all costs, reasonable attorneys' fees and expenses, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions.

#### **Loan Default Events**

The following, among other things, will be "Loan Default Events" under the Loan Agreement: (1) failure to pay in full any payment required under the Loan Agreement when due; (2) failure to pay or cause to be paid any premiums required under the Contract of Insurance; (3) if any representation or warranty made by the Corporation in the Loan Agreement or in certain other documents in connection with the issuance of the Bonds shall at any time prove to have been incorrect in any material respect as of the time made; (4) failure by the Corporation to observe or perform any other covenant, condition, agreement or provision in the Loan Agreement or Regulatory Agreement for a period of 60 days after written notice to the Corporation by the Authority, the Office or the Trustee, except that if such failure can be remedied but not within such 60 days, and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such 60 days, then such failure shall not become a Loan Default Event for so long as the Corporation diligently attempts such remedy subject to directions and limitations of time established by the Trustee or the Office; (5) if the Corporation abandons the Facilities, or any substantial part thereof and such abandonment continues for a period of 30 days after written notice thereof has been given to the Corporation by the Authority or the Trustee; (6) if any default shall exist under any agreement respecting Long-Term Indebtedness (other than Parity Debt) and if, as a result thereof, Long-Term Indebtedness in an aggregate principal amount in excess of 10% of the Corporation's Adjusted Annual Operating Revenues are declared immediately due and payable or a proceeding for enforcement is brought, except if the Corporation establishes reserves or obtains a surety bond acceptable to the Office for the payment of such Long-Term Indebtedness which, in the opinion of the Office, are adequate; (7) if any default exists under any instrument pursuant to which Parity Debt was issued and is Outstanding and such default continues after the grace period; (8) certain incidents of bankruptcy, insolvency or similar conditions; and (9) any Event of Default under the Indenture.

#### **Remedies on Default**

During the continuance of a Loan Default Event the Authority or the Trustee may, with the consent of the Office (provided that such consent shall not be required in the case of a Loan Default Event arising from the breach of a tax covenant or if the Contract of Insurance is not in effect or the

Office is in default thereunder) among other things, declare all installments of Loan Repayments and Additional Payments payable for the remainder of the term of the Loan Agreement to be immediately due and payable. The Authority or the Trustee may take whatever legal action may be necessary or desirable to enforce the terms of the Loan Agreement.

## INDENTURE

### **General**

The Indenture sets forth the terms of the Bonds, the nature and extent of the security, various rights of the Bondholders, rights, duties and immunities of the Trustee and the rights and obligations of the Authority. Although certain provisions of the Indenture are summarized below, this summary does not purport to be complete or definitive and is qualified in its entirety by reference to the full terms of the Indenture.

### **Establishment of Funds and Accounts**

The Indenture creates the Revenue Fund (and the Interest Account, Principal Account, Sinking Account and Bond Reserve Account established thereunder), the Redemption Fund (and the Optional Redemption Account and Special Redemption Account established thereunder), the Insurance and Condemnation Proceeds Fund, the Project Fund, the Costs of Issuance Fund and the Rebate Fund; all of which are to be held by the Trustee.

### **Insurance and Condemnation Proceeds Fund**

The Trustee will maintain and administer the Insurance and Condemnation Proceeds Fund as set forth in the Loan Agreement and the Regulatory Agreement. See "LOAN AGREEMENT--" and "REGULATORY AGREEMENT-Disposition of Insurance and Condemnation Proceeds" herein.

### **Project Fund**

The costs of the Project will be paid from moneys within the Project Fund. Moneys in the Project Fund may be withdrawn pursuant to requisition from the Corporation to the Trustee and an executed form OSH-CM-134 of the Office. When the Project shall have been completed, the following shall be delivered to the Trustee by the Corporation: (i) a Statement of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved); and (ii) a final audit of the Project and authorization issued by the Office. The Corporation shall direct the Trustee by said Statement of the Corporation to transfer (upon the receipt of such Statement, audit and authorization) any remaining balance in the Project Fund, less the amount of any such retention, to the Revenue Fund.

### **Costs of Issuance Fund**

The costs associated with the issuance of the Bonds will be paid from moneys within the Costs of Issuance Fund. Moneys in the Costs of Issuance Fund may be withdrawn pursuant to requisition from the Corporation to the Trustee and an executed form OSH-CM-134 of the Office. On the 180th day following the issuance of the Bonds or upon the earlier Request of the Corporation, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Revenue Fund.

### **Revenue Fund**

All Revenues will be deposited by the Trustee upon receipt in the Revenue Fund which the Trustee will hold in trust and apply in accordance with the Indenture, except as otherwise provided with respect to investment income, moneys required to be deposited in the Redemption Fund,

proceeds of insurance and condemnation received pursuant to the Loan Agreement and the Regulatory Agreement, and amounts held in the Rebate Fund.

### **Allocation of Revenues**

On or before the 25th day of each month, the Trustee will transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund) and then to the Rebate Fund, the following amounts in the following order or priority, the requirements of each such account or fund (including making up any deficiencies resulting from lack of Revenues sufficient to make any earlier required deposit) to be satisfied before any transfer is made to any account or fund subsequent in priority:

*FIRST:* To the Interest Account, one-sixth of the aggregate amount of interest becoming due and payable during the next six months on all Bonds Outstanding, until the balance is equal to said aggregate amount of interest;

*SECOND:* To the Principal Account, one-twelfth of the aggregate amount of principal becoming due and payable on the Outstanding Serial Bonds plus one-twelfth of the aggregate amount of Mandatory Sinking Account Payments required to be paid into the respective Sinking Accounts for Outstanding Term Bonds, in each case during the next ensuing twelve months, until the balance in the Principal Account is equal to said aggregate amount of such principal and Mandatory Sinking Account Payments provided that from the date of delivery of the Bonds until the first principal payment date with respect to the Bonds (if less than twelve months), transfers to the Principal Account shall be sufficient on a monthly pro rata basis to pay the principal becoming due and payable on said principal payment date;

*THIRD:* To the Bond Reserve Account, one-twelfth of the aggregate amount of each prior withdrawal from the Bond Reserve Account for the purpose of making up a deficiency in the Interest Account or Principal Account (until deposits on account of such withdrawal are sufficient to fully restore the amount withdrawn) provided that no deposit need be made into the Bond Reserve Account if the balance in said account is at least equal to the Bond Reserve Account Requirement, and (ii) the amount of any deficiency in the Bond Reserve Account resulting from the valuation of Investment Securities (until deposits on account of such valuation deficiency are sufficient to increase the balance in said account to said amount); and

*FOURTH:* To the Rebate Fund, such amounts as directed by the Corporation as are required to be deposited therein by the Indenture.

Any moneys remaining in the Revenue Fund after the foregoing transfers shall be transferred first to the Office to the extent necessary to repay insurance advances made by the Office, including interest thereon as specified in the Regulatory Agreement, as certified to the Trustee by the Office, and thereafter to the Corporation.

### **Application of Interest Account and Principal Account**

All amounts in the Interest Account will be used by the Trustee solely for the payment of interest on the Bonds.

All amounts in the Principal Account will be used by the Trustee solely for paying the principal of the Bonds except that all amounts in the Sinking Accounts shall be used and withdrawn by the Trustee solely to purchase or redeem or pay at maturity Term Bonds as provided in the Indenture. On each Mandatory Sinking Account Payment date for such account, the Trustee shall apply the Mandatory Sinking Account Payment required on that date to the redemption (or payment at maturity) of Term Bonds; provided that, at any time prior to giving notice of any such redemption, the Trustee shall apply such moneys to the purchase of Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges, but excluding accrued interest, which is payable from the Interest Account) as the Corporation may direct, except that the purchase

price (excluding accrued interest) shall not exceed the par amount of such Term Bonds. If during the twelve-month period immediately preceding said Mandatory Sinking Account Payment date, the Trustee has purchased Term Bonds with moneys in such Sinking Account, or, during said period and prior to the giving of notice of redemption, the Corporation has deposited Term Bonds with the Trustee, or Term Bonds were at any time purchased or redeemed by the Trustee from the Redemption Fund and allocable to said Mandatory Sinking Account Payment, such Bonds so purchased or deposited or redeemed shall be applied, to the extent of the full principal amount thereof, to reduce said Mandatory Sinking Account Payment.

Any amounts remaining in a Sinking Account when all of the Term Bonds for which such account was established are no longer Outstanding shall be withdrawn by the Trustee and transferred to the Revenue Fund.

#### **Application of Redemption Fund**

The Trustee shall establish within the Redemption Fund a separate Optional Redemption Account and a Special Redemption Account. All amounts deposited in the Optional Redemption Account and Special Redemption Account shall be used by the Trustee solely for the purpose of redeeming Bonds pursuant to the terms of the Indenture at the next succeeding date of redemption for which notice has not been given and at redemption prices then applicable to redemptions from the Optional Redemption Account and Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon direction of the Corporation, apply such amounts to the purchase of Bonds at public or private sale, at prices as provided in the Indenture, and provided further that, in the case of the Optional Redemption Account, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as requested by the Corporation. All Term Bonds purchased or redeemed from the Redemption Fund shall be allocated to applicable Mandatory Sinking Account Payments designated in a Certificate of the Corporation (or if the Corporation fails to deliver such a Certificate to the Trustee, in inverse order of their payment dates.)

#### **Application of Bond Reserve Account**

All amounts in the Bond Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Account or Principal Account (but only with the consent of the Office) or (together with any other funds available) for the payment or redemption of all Bonds then Outstanding.

#### **Investments**

All moneys in any of the funds and accounts established pursuant to the Indenture shall be invested by the Trustee, upon the written direction of the Corporation, solely in Investment Securities. Moneys in the funds and accounts (other than the Bond Reserve Account) established pursuant to the Indenture shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required by the Trustee. Moneys in the Bond Reserve Account shall be invested in Investment Securities maturing prior to the final maturity of the Bonds but in no event longer than five years from the date of investment therein; provided, however, moneys in the Bond Reserve Account may be invested in Investment Securities with a nominal maturity date which is greater than five years as long as said Investment Securities by their terms allow the Trustee to obtain (at any time the Trustee is required to draw on the Bond Reserve Account) the corpus thereto at no less than the purchase price thereof without any loss in value. All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in any other fund or account fund or account established pursuant to the Indenture shall be transferred when received (a) first, to the Bond Reserve Account to the extent necessary to increase the balance therein to the Bond Reserve Account Requirement, (b) second, to the Principal Account to the extent necessary to increase the balance therein to the aggregate amount of principal and Mandatory Sinking Account Payments coming due during the next ensuing twelve

months, and (c) third, to the Revenue Fund. For the purpose of determining the amount in any fund or account, all Investment Securities credited to such fund or account (other than the Bond Reserve Account) will be valued at the lower of cost (exclusive of accrued interest after the first payment of interest) or market value. All Investment Securities in the Bond Reserve Account shall be valued at their fair market value.

Notwithstanding any other provision of the Indenture, the Corporation shall not enter into, or instruct the Trustee to enter into, any agreement, including, without limitation, any investment or sale agreement involving the sale of future interest income or a forward delivery agreement or a forward purchase contract or a forward purchase supply contract, which provides for an upfront payment to the Corporation, in connection with the investment of any of the funds or accounts established under the Indenture and held by the Trustee.

### **Rebate Fund**

The Corporation has covenanted not to use or permit the use of the proceeds of Bonds or other funds in any manner which could cause the Bonds to be an "arbitrage bond" within the meaning of the Internal Revenue Code of 1986. To satisfy certain requirements of such Code, a Rebate Fund is established pursuant to the Indenture and certain earnings on the funds and accounts and the proceeds of the Bonds are required to be deposited in the Rebate Fund and paid to the United States Government.

### **Pledge and Assignment of Revenues**

Pursuant to the Indenture, the Authority transfers in trust, grants a security interest in and assigns to the Trustee, for the benefit of the Bondholders, all of the Revenues and any other amounts (including proceeds of the sale of Bonds) held in any fund or account and all of the right, title and interest of the Authority in the Loan Agreement, the Deed of Trust, the Contract of Insurance and the Regulatory Agreement (except for the rights to receive (1) any Administrative Fees and Expenses to the extent payable to the Authority, (2) certain expenses, indemnification, and attorneys fees from the Corporation, and (3) a certificate of the Corporation regarding compliance with certain constitutional provisions from the Corporation). The Trustee shall be entitled to and shall collect and receive all of the Revenues, and any Revenues collected or received by the Authority shall be deemed to be held, and to have been collected or received, by the Authority as the agent of the Trustee and shall forthwith be paid by the Authority to the Trustee. The Trustee also shall be entitled to and subject to the provisions of the Indenture shall take all steps, actions and proceedings reasonably necessary in its judgment to enforce, either jointly with the Authority or separately, all of the rights of the Authority and all of the obligations of the Corporation under the Loan Agreement, the Deed of Trust, the Contract of Insurance and the Regulatory Agreement.

### **Tax Covenants**

*Federal Guarantee Prohibition.* The Authority 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 Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code.

*Rebate Requirement.* The Authority shall take 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 Bonds.

*No Arbitrage.* The Authority shall not take, or permit or suffer to be taken by the Trustee or otherwise, any action with respect to the proceeds of the Bonds which, if such action had been reasonably expected to have been taken, or had been deliberately and intentionally taken, on the date of issuance of the Bonds would have caused the Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code.

*Prohibited Facilities.* No portion of the proceeds of the Bonds shall be used to provide any airplane, skybox or other private luxury box, health club facility, facility primarily used for gambling,

or store the principal business of which is the sale of alcoholic beverages for consumption off premises. No portion of the proceeds of the Bonds shall be used for an office unless the office is located on the premises of the facilities constituting the Project and unless not more than a *de minimus* amount of the functions to be performed at such office is not related to the day-to-day operations of the Project.

*Use Covenant.* The Authority shall not use or knowingly permit the use of any proceeds of Bonds or any other funds of the Authority, directly or indirectly, in any manner, and shall not take or permit to be taken any other action or actions, which would result in any of the Bonds being treated as an obligation not described in section 145 of the Code by reason of such Bond not meeting the requirements of section 145 of the Code.

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

### **Continuing Disclosure**

The Trustee agrees to comply with and carry out all provisions of the Continuing Disclosure Agreement and the provision of the Loan Agreement relating to continuing disclosure as applicable to the Trustee.

### **Events of Default; Remedies on Default**

"Events of Default" under the Indenture include: (1) default in the due and punctual payment of the principal or Redemption Price of or interest on any Bond or any premium due to the Office under the Contract of Insurance; (2) default by the Authority to observe or perform any other covenants, agreement or conditions on its part contained in the Indenture or the Bonds, which failure shall have continued for a period of 60 days after written notice thereof to the Authority and the Corporation from the Trustee or to the Authority, the Corporation and the Trustee from the holders of not less than 25% in aggregate principal amount of the Outstanding Bonds; (3) a Loan Default Event; or (4) if the Corporation or its creditors file a petition alleging insolvency, requesting reorganization, or a composition of creditors, or for an assignment for the benefit of creditors, in any court, the Office shall have the right to vote in the place and stead of all Bondholders, so long as the Office provides to the Trustee ten (10) days or more before any such vote that the Contract of Insurance will remain in effect after such vote, on any plan of reorganization, agreement for a composition of creditors, and on any assignment for the benefit of creditors. See "LOAN AGREEMENT--Loan Default Events."

During the continuance of an Event of Default, the Trustee may, and upon receipt of instructions from the Holders of a majority in aggregate principal amount of the Bonds then Outstanding, shall, upon notice in writing to the Authority, the Office and the Corporation, declare the principal of all of the Bonds then Outstanding, and the interest accrued thereon, to be due and payable immediately, and upon any such declaration the same shall become and shall be immediately due and payable, anything in the Indenture or in the Bonds contained to the contrary notwithstanding; provided, however, that no such declaration may be made if the Contract of Insurance is in effect and the Office is not in default thereunder unless (i) the Trustee is required to make such declaration pursuant to the Indenture or (ii) the Office consents to such acceleration and agrees to pay an amount equal to the full principal amount Outstanding and interest thereon at the stated interest rates to the date of acceleration.

In addition, the Trustee in its discretion may, and upon written request of the Office or the holders of not less than 25% in aggregate principal amount of the Bonds then Outstanding and the written consent of the Office, and upon being indemnified to its satisfaction therefor shall, proceed to protect or enforce its rights or the rights of such Bondholders under the Indenture, the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, the Deed of Trust or the Act or other law. No Bondholder has the right to institute any proceeding unless (1) such Bondholder shall have given written notice to the Trustee of the occurrence of an Event of Default, (2) the holders of

not less than 25% in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to institute such proceedings in its own name, (3) such Bondholder or Bondholders shall have tendered to the Trustee reasonable indemnity against the expenses to be incurred in compliance with such request, (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after receipt of such written notice and tender of indemnity; and (5) except as otherwise permitted under the Indenture, the Office has consented in writing.

### **Collection Upon Insurance**

Upon the occurrence and continuance of an Event of Default, the Trustee shall proceed to take such steps as are necessary, in the reasonable judgment of the Trustee, to collect upon the insurance required by the Insurance Law. If the Office and the Treasurer of the State have notified the Trustee in writing that they elect to pay such insurance by means of debentures of the Office's Health Facility Construction Loan Insurance Fund, the Trustee shall as soon as practicable provide notice to each Owner of the exchange of such debentures for the Bonds then Outstanding in the same manner as for notice of redemption pursuant to Article IV, and shall deliver to each Owner, as soon as practicable after surrender of such Owner's Bonds, debentures received from the Office in a principal amount equal to the principal amount of such Bonds plus accrued interest thereon and having maturities the same as such Bonds, bearing interest at such rate or rates equal to the rates on the respective Bonds. Bonds not delivered for exchange are no longer entitled to payment and become evidence of only the right to receive the related debenture, Bonds shall be delivered to the Office as required by the Act, and upon redelivery to the Trustee by the Office in accordance with the provisions of the Contract of Insurance, Bonds shall be cancelled and destroyed by the Trustee.

### **Amendment of Indenture**

The Authority and the Trustee may, by supplemental indenture, without the consent of any Bondholders but with the written consent of the Corporation and the Office, amend the Indenture only for certain purposes specified in the Indenture, including (1) to add to the covenants and agreements of the Authority, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority; (2) to make provisions to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in the Indenture or in regard to matters or questions arising under the Indenture, not inconsistent with the Indenture; (3) to modify, amend or supplement the Indenture to permit qualification under the Trust Indenture Act of 1939, as amended; or (4) modify, amend or supplement the provisions relating to the giving of notice to comply with the Securities and Exchange Commission guidelines. With the consent of the Office and the holders of not less than a majority in aggregate principal amount of the Bonds then Outstanding, a supplemental indenture may amend the Indenture in any manner, provided that no such supplemental indenture shall (1) extend the fixed maturity of any Bond, reduce the amount of principal thereof, reduce the rate of interest thereon, extend the time of payment of interest thereon, extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce any premium payable upon the redemption thereof, without the consent of the holder of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the holders of which is required for such modification or amendment, or permit the creation of any lien on the Revenues or other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the holders of the Bonds of the lien created by the Indenture upon the Revenues and other assets (except as expressly provided in the Indenture and the Loan Agreement), without the consent of the holders of all the Bonds then Outstanding.

### **Defeasance**

Bonds may be paid by the Authority or the Trustee on behalf of the Authority in any of the following ways:

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

(2) by depositing with the Trustee in trust, at or before maturity, money or securities in the necessary amount (as provided in the Indenture) to pay or redeem all Bonds then Outstanding; or

(3) by delivering to the Trustee for cancellation by it, all Bonds then Outstanding.

If the Authority shall pay all Outstanding Bonds and shall also pay all other sums payable under the Indenture by the Authority, then at the election of the Authority the Indenture and the pledge of the Revenues and other assets and all covenants, agreements and other obligations of the Authority under the Indenture shall cease, terminate, become void and be completely discharged and satisfied except that thereafter, Bondholders shall be entitled to payment by the Authority, and the Authority shall remain liable therefor, but only out of such money or securities deposited with the Trustee.

#### **Bond Insurance Provisions**

*Payments Under the Policy.* The Trustee shall not make a claim for payment on the Policy until any and all funds held hereunder have been fully drawn to pay debt service on the Bonds. As long as the Policy shall be in full force and effect, the Trustee agrees to comply with the following provisions:

(i) At least three (3) days prior to all Interest Payment Dates, the Trustee will determine whether there will be sufficient funds to pay the principal of or interest on the Bonds on such Interest Payment Date. If the Trustee determines that there will be insufficient funds, the Trustee shall so notify the Insurance Trustee. Such notice shall specify the amount of the anticipated deficiency, the Bonds to which such deficiency is applicable and whether such Bonds will be deficient as to principal or interest, or both. The Insurer will make payments of principal or interest due on the Bonds on or before the first (1st) day next following the date on which the Insurance Trustee shall have received notice of nonpayment from the Trustee.

(ii) The Trustee shall, after giving notice to the Insurance Trustee as provided in (i) above, make available to the Insurer and the Insurance Trustee, the registration books for the Bonds maintained by the Trustee, and all records relating to the funds maintained under the Indenture.

(iii) The Trustee shall provide the Insurer and the Insurance Trustee with a list of Owners entitled to receive principal or interest payments from the Insurer under the terms of the Policy and shall make arrangements with the Insurance Trustee (A) to mail checks or drafts to the Owners entitled to receive full or partial interest payments from the Insurer, and (B) to pay principal upon Bonds surrendered to the Insurance Trustee by the Owners entitled to receive full or partial principal payments from the Insurer.

(iv) The Trustee shall, at the time it provides notice to the Insurance Trustee pursuant to (i) above, notify Owners entitled to receive the payment of principal or interest thereon from the Insurer (A) as to the fact of such entitlement, (B) that the Insurer will remit to them all or part of the interest payments next coming due upon proof of Owner entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee as determined by the Insurer, of an appropriate assignment of the Owner's right to payment, (C) that should they be entitled to receive full payment of principal from the Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Insurer to permit ownership of such Bonds to be registered in the name of the Insurer) for payment to the Insurance Trustee, and not the Trustee and (D) that should they be entitled to receive partial payment of principal from the Insurer, they must surrender their Bonds for payment thereon first to the Trustee, who shall note on such Bonds the portion of the principal paid by the Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Insurer, to the Insurance Trustee, 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 a Bond which has become due for payment and which is made to an Owner by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered

from its 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 the Insurance Trustee is notified pursuant to (i) above, notify all Owners that in the event that any Owner's payment is so recovered, such Owner will be entitled to payment from the Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Trustee shall furnish to the Insurance Trustee and the Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Trustee and subsequently recovered from Owners and the dates on which such payments are made.

(vi) The Insurer shall, to the extent it makes payment of principal of or interest on Bonds, become subrogated to the rights of the recipients of such payments in accordance with the terms of the Policy, and to evidence such subrogation (A) in the case of subrogation as to claims for past due interest, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Bonds maintained by the Trustee, upon receipt from the Insurer of proof of the payment of interest thereon to the Owners, and (B) in the case of subrogation as to claims for past due principal, the Trustee shall note the Insurer's rights as subrogee on the registration books for the Bonds maintained by the Trustee upon surrender of the Bonds by the Owners thereof together with proof of the payment of principal thereof.

*Acceleration* To the extent the Bonds are subject to acceleration, upon the occurrence of an Event of Default, the indebtedness evidenced by the Bonds shall not be accelerated without the Insurer's prior written consent. At that time, the Insurer may, in its discretion, either direct the accelerated payment of the Bonds or continue to pay principal and interest on the originally scheduled due dates of the Bonds.

*Additional Requirements for Defeasance.* Notwithstanding the provisions of the Indenture, in connection with the defeasance of any of the Bonds:

(i) only non-redeemable obligations of the United States or those for which the full faith and credit of the United States are pledged for the timely payment of principal and interest on the Bonds to be defeased;

(ii) a verification report by a verifier acceptable to the Insurer, in form and substance satisfactory to the Insurer, shall be provided to the Insurer;

(iii) an opinion of Bond Counsel shall be rendered to the Insurer to the effect that all of the requirements of the Indenture for defeasance of the Bonds to be defeased have been complied with;

(iv) Bonds may be defeased only with securities as set forth in (i) above which constitute Available Monies. Available Monies shall mean any monies on deposit with the Trustee for the benefit of the holders of the Bonds which are (i) Bond proceeds or refunding bond proceeds, (ii) amounts on deposit for a period of 124 consecutive days during which no petition in bankruptcy under the U.S. Bankruptcy Code has been filed by or against the entity which paid such money, and no similar proceedings have been instituted under state insolvency or other laws affecting creditors' rights generally, or (iii) any monies with respect to which an unqualified opinion from nationally recognized counsel has been received stating that such payments to the holders of the Bonds would not constitute voidable preferences under section 547 of the U.S. Bankruptcy Code, or similar state or federal laws with voidable preference provisions in the event of the filing of a petition for relief under the U.S. Bankruptcy Code, or similar state or federal laws with voidable preference provisions by or against the entity from whom the money is received; and

(v) no forward delivery agreements, hedge, investment agreement, purchase and resale agreements or par-put agreements may be used with respect to the investment of any funds or securities defeasing any of the Bonds without the prior written consent of the Insurer.

*Subrogation.* In the event that the principal and/or interest due on the Bonds shall be paid by the Insurer pursuant to the Policy, the Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Authority, and all covenants, agreements and other obligations of the Authority to the Owners shall continue to exist and shall run to the benefit of Insurer and Insurer shall be subrogated to the rights of such Owners.

*Notice Regarding Amendments.* Any rating agency then rating the Bonds must receive notice of each amendment to the Indenture and a copy thereof at least fifteen (15) Business Days in advance of its execution or adoption. The Insurer shall be provided with a full transcript of all proceedings relating to the execution of any such amendment.

*Redemption.* Redemption of the Bonds shall be permitted at any time without the Insurer's prior written consent so long as funds for such redemption are irrevocably deposited with the Trustee prior to rendering notice of redemption to the Owners, or in the alternative, the notice expressly states that such redemption is subject to the deposit of funds by the Authority.

*Replenishment of Bond Reserve Account.* Notwithstanding anything in the Indenture to the contrary, any withdrawal from the Bond Reserve Account shall be replenished to the extent needed to bring the amount in the Bond Reserve Account up to the amount of the Bond Reserve Account Requirement in not less than twelve equal monthly payments immediately succeeding such withdrawal. Any deficiency in the Bond Reserve Account determined upon the quarterly valuation thereof, shall be replenished in not less than three equal monthly payments prior to the next succeeding valuation date.

*Permitted Investments for Bond Funds.* Notwithstanding anything in the Indenture to the contrary, all amounts in Revenue Fund (including the accounts therein) pledged to the payment of the Bonds shall be invested only in Investment Securities. Investments on deposit in the Bond Reserve Account shall be valued at market value at least quarterly. No forward delivery agreements, hedge, purchase and resale agreements or par-put agreements may be used with respect to the investment of amounts in the Bond Reserve Account (including the accounts therein) pledged to the Bonds without the prior written consent of the Insurer.

Amounts contained in the Bond Reserve Account shall be invested only in the instruments set forth in paragraphs (a), (b) and (c) of the definition of Investment Securities, with maturities of not longer than one year. No reserve account credit facilities, insurance policies, investment agreements, forward delivery agreements, hedge or par-put agreements may be used without the prior written consent of the Insurer.

*Defaults.* The Authority must cure any covenant default 30 days after notice of the default. No waivers of any Event of Default shall be granted by or on behalf of the Owners without the prior written consent of the Insurer. Anything in the Indenture to the contrary notwithstanding, upon the occurrence and continuance of an Event of Default, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or any trustee appointed for the benefit of the Owners under the Indenture as if the Insurer were the Owner of the Bonds.

*Control.* Anything in the Indenture to the contrary notwithstanding, following a default by the Office under the Contract of Insurance, the Insurer shall be entitled to control and direct the enforcement of all rights and remedies granted to the Owners or any trustee appointed for the benefit of the Owners under the Indenture as if the Insurer were the Owner of the Bonds insured by it.

*Default Rate on Payments by the Insurer.* Amounts paid by the Insurer in respect of the principal and/or interest on the Bonds shall bear interest until repaid to the Insurer at a per annum rate of interest equal to the rate from time to time announced by the Insurance Trustee as its base lending rate plus three percent (3%).

*Removal of Trustee.* Prior to an Event of Default, the Insurer shall have the right to remove the Trustee for cause and, after an Event of Default, the Insurer shall have the right to remove the Trustee for any reason.

*Consents of the Insurer.* The Insurer's consent shall be required for the following purposes: (i) execution and delivery of any amendment or supplement to the Indenture, the Loan Agreement, the Contract of Insurance or the Regulatory Agreement; (ii) removal of the Trustee; and (iii) initiation or approval of any action not described in (i) and (ii) above which requires the consent of the Owners.

*Parties in Interest.* The Insurer is and shall be a third party beneficiary of the Indenture and, as such a beneficiary, shall be entitled to (i) notify the Trustee of the occurrence of an Event of Default, and (ii) request the Trustee to intervene in judicial proceedings that affect the Bonds or the security therefore.

*Interpretation.* Notwithstanding any other provision of the Indenture, in determining whether the rights of the Owners will be adversely affected by any action taken pursuant to the terms and provisions of the Indenture, the Trustee shall consider the effect on the Owners without regard to the Policy.

The Trustee shall not be permitted to resolve ambiguities in the Indenture in any manner that shall be deemed to be conclusively binding on Owners without the consent of the Insurer. The Insurer shall receive notice of any proposed meetings of Owners held under the Indenture and shall be given the opportunity to attend and participate in the same.

Any legal opinions rendered to any party to the Indenture as to compliance with or interpretation of, the provisions hereof, shall also be provided to the Insurer.

### DEED OF TRUST

The obligations of the Corporation pursuant to the Loan Agreement and the Regulatory Agreement are secured by the lien of a Deed of Trust upon the Facilities until such time as such purchase money obligation is paid in

**With the consent of the Office, the Deed of Trust may be amended or terminated at any time, without the necessity of obtaining the consent of the Trustee, the Authority or the holders of the Bonds or of Parity Debt.**

To the extent permitted under the Regulatory Agreement, certain property may be removed from the lien and security interest of the Deed of Trust upon written request by the Office.

Upon the failure of the Corporation to perform its obligations as required under the Deed of Trust, the trustee under the Deed of Trust, the Authority, the holders of Parity Debt or the Office, as beneficiaries, under the Deed of Trust may elect to do any or all of the following: (1) make any such payment or do any such act in such manner and to the extent necessary to protect the security of the Deed of Trust; (2) pay, purchase, contest or compromise any claim, debt, lien, charge or encumbrance which may affect or appear to affect the security of the Deed of Trust; (3) take possession of, and manage, operate or lease, the Property; and (4) declare all sums secured by the Deed of Trust to be immediately due and payable and sell the Facilities to satisfy the lien of 'the Deed of Trust. If the Trustee elects to foreclose and sell the Facilities, there are certain applicable statutory time periods which must expire before such proceedings will be effective.

The Regulatory Agreement confers certain powers and rights upon the Office which may limit the discretion of the trustee under the Deed of Trust. Before the benefits of the insurance are to be paid, the Office may require such trustee to (1) foreclose on the Deed of Trust and convey title to the Facilities to the Office; or (2) assign all security interests of the Bondholders under the Deed of Trust to the Office. In addition, the Office may share in the lien of the Deed of Trust with the interests

of the Bondholders on a pro rata basis for advances made from the Insurance Fund for payment on the Bonds. See "REGULATORY AGREEMENT."

### CONTRACT OF INSURANCE

The Contract of Insurance is an agreement among the Office, the Corporation and the Authority whereby the Corporation and the Authority agree to abide by the terms of the principal documents, and the Office agrees that the Bonds are eligible for insurance and are thereby insured under the Insurance Law. The Contract of Insurance provides that the insurance may be terminated only upon the occurrence of any of the following: (a) upon the payment in full by the Office of the Insurance of the Bonds, (b) upon the payment in full of the principal of and the accrued and unpaid interest on the Bonds (including defeasance of the Bonds) and all other amounts owing to the Owners and the Trustee under the Indenture so that the Bonds are not Outstanding (other than any payment by the Insurer), or (c) upon the joint written request of the Authority, the Corporation and all the Owners as provided in Insurance Law Section 129185. The Contract of Insurance shall not be terminable at the option of the Office as a result of (i) failure of the Trustee or any other party to convey property foreclosed upon or otherwise acquired, or (ii) failure of the Trustee to deliver Bonds for exchange. The Contract of Insurance shall not be contestable as a result of fraud or misrepresentation by the Authority or for any other reason.

The Office shall (i) make curative payments pursuant to Insurance Law Section 129145 with respect to the Bonds until amounts in the Health Facility Construction Loan Insurance Fund maintained by the Office (the "Insurance Fund") fall below \$10,000,000; and (ii) request that the Bonds be exchanged for debentures pursuant to the provisions of the Act and the Contract of Insurance when amounts in the Insurance Fund fall below \$20,000,000.

The Office agrees to request of all appropriate officials of the State, at the time debentures are issued in exchange for the Bonds, that the debentures and the debenture indenture incorporate all requirements of Insurer with respect to the Bonds, as set forth in Insurer's commitment with respect to the Bonds, as if the debentures were Bonds.

With respect to any Bond not delivered to the Trustee in connection with a debenture exchange with respect to the Bonds, the Office shall deliver the related debentures to the Trustee, and each such debenture, and all payments under each such debenture, shall be held by the Trustee in trust for the holder of the related Bond until such Bond is delivered to the Trustee for exchange.

Bonds delivered to the Office in exchange for debentures shall, immediately upon such delivery, be redelivered to the Trustee for cancellation in accordance with the Indenture.

The Office covenants and agrees to provide its activity report as of June 30 to the Insurer within 120 days after the end of each fiscal year.

(The Office will permit Insurer and/or the Insurance Trustee to discuss the affairs, finances and accounts of the Office or any information the Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Office. The Office will permit the Insurer and/or the Insurance Trustee to have access to and make copies of all books and records relating to the Bonds, and the security therefor at any reasonable time.

The Office shall pay or reimburse the Insurer any and all charges, fees, costs and expenses which the Insurer may reasonably pay or incur in connection with the failure of the Office to honor its obligations under the Contract of Insurance.

The Office shall protect, hold harmless and indemnify the Insurer for, from and against any and all liability, obligations, losses, claims and damages paid or incurred in connection with the failure of the Office to honor its obligations under the Contract of Insurance, except that the Office shall not protect, hold harmless or indemnify the Insurer for the willful or wanton acts or omissions, mistakes, gross negligence of the Insurer, to the extent that such acts, omissions, mistakes, gross

negligence of such party are successfully alleged to have caused the liability, obligation, loss, claim or damage) and expenses in connection herewith including reasonable attorneys' fees and expenses.

### **REGULATORY AGREEMENT**

The Regulatory Agreement is an agreement among the Office, the Authority and the Corporation to establish the requirements of the Office with respect to certain details of the financing transaction. The Regulatory Agreement also sets out certain business covenants of the Corporation, including maintenance, operation and management of the Facilities and limitations on encumbrances, assignment and transfer of any part of the Facilities and other matters. The Regulatory Agreement also provides for the rights and obligations of the parties in the event of a default and provides for the manner in which the benefits of the insurance are to be paid. Specifically, the Office shall notify the State Treasurer, upon surrender to the Office by the Trustee of (1) title or the security interest created by the Deed of Trust, (2) assignment of all claims of the Authority and the Trustee against the Corporation or others, arising out of the sale of the Bonds or foreclosure proceedings, and (3) each Bond which has been surrendered to the Trustee, and the Office shall have the option, at any time and from time to time thereafter to cause debt service payments with respect to the Bonds to be made from any money available therefor including the Insurance Fund, or to request the State Treasurer to issue to the Trustee debentures having the same maturities and interest rates as the surrendered Bonds, in a total face amount equal to all amounts due under the Indenture. The Regulatory Agreement provides that the Office shall share in the lien of the Deed of Trust for, and to the extent of, insurance payments.

#### **Rates and Charges; Debt Coverage; Current Ratio; Days Cash On Hand**

The Corporation shall operate the Facilities as revenue producing health care facilities. The Corporation shall fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rates, fees and charges which, together with all other receipts and revenues of the Corporation and any other funds available therefor, are reasonably projected to be sufficient in each Fiscal Year (commencing with the Fiscal Year beginning on July 1, 2004) to produce Net Income Available for Debt Service equal to at least 1.25 times Maximum Aggregate Annual Debt Service for such Fiscal Year.

The Corporation shall maintain, as of the end of each Fiscal Year (commencing with the Fiscal Year beginning on July 1, 2004), a current ratio (a ratio of current assets to current liabilities, as determined in accordance with generally accepted accounting principles and as shown on the Corporation's audited financial statements for such Fiscal Year) of at least 1.2:1.0.

The Corporation shall maintain, as of the end of the Fiscal Year beginning on July 1, 2004 at least fifteen (15) Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year and shall maintain, as of the end of each Fiscal Year thereafter, at least thirty (30) Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year. For purposes of this requirement, "Days Cash on Hand" shall mean, for any Fiscal Year, the quotient obtained by dividing (1) the Corporation's cash and cash equivalents as of the end of such Fiscal Year by (2) the quotient of dividing (a) the Corporation's operating expenses (excluding depreciation, amortization, allowance for bad debts, and any other noncash expenses) for such Fiscal Year by (b) the number of days in such Fiscal Year.

Within one hundred twenty (120) days after the end of each Fiscal Year (commencing with the Fiscal Year beginning on July 1, 2004), the Corporation shall compute (1) the Net Income Available for Debt Service and Maximum Aggregate Annual Debt Service, (2) the current ratio and (3) the Days Cash on Hand for such Fiscal Year and promptly furnish to the Authority, the Trustee and the Office a Statement setting forth the results of such computation. The Corporation further covenants and agrees that if, at the end of such Fiscal Year, the Net Income Available for Debt Service, the current ratio or the Days Cash on Hand shall have been less than as required by the Regulatory Agreement, they will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Corporation or the methods of operation of the Corporation which will result

in producing Net Income Available for Debt Service, a current ratio and Days Cash on Hand as required by the Regulatory Agreement in the current Fiscal Year; provided, however, the Corporation need not so employ a Management Consultant if the Office consents, in writing, to a waiver of said covenant to employ a Management Consultant. Copies of the recommendations of the Management Consultant shall be filed with the Authority, the Trustee and the Office. The Corporation shall, to the extent feasible, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations; provided, however, the Corporation need not make such revisions or take such actions in conformity with such recommendations if (1) the Board makes a good faith determination that such recommendations, in whole or in part, are not in the best interests of the Corporation and (2) the Office gives its written consent to the effect that the Corporation need not comply, in whole or in part, with such recommendations. In the event that the Corporation fail to comply with the recommendations of the Management Consultant, the Office may replace existing management with new management, which shall be chosen unilaterally by the Office.

If the Corporation complies in all material respects with the reasonable recommendations of the Management Consultant in respect to said rates, fees, charges and methods of operation or collection, the Corporation will be deemed to have complied with the covenants contained in the Regulatory Agreement for such Fiscal Year, notwithstanding that Net Income Available for Debt Service, the current ratio or the Days Cash on Hand shall be less than the amount required under the Regulatory Agreement; provided, that (1) this sentence shall not be construed as in any way excusing the Corporation from taking any action or performing any duty required under the Regulatory Agreement or be construed as constituting a waiver of any other event of default under the Regulatory Agreement and (2) Net Income Available for Debt Service shall be at least equal to 1.0 times Aggregate Debt Service for such Fiscal Year.

Notwithstanding the foregoing, the Corporation may permit the rendering of service at, or the use of, the Facilities without charge or at reduced charges, at the discretion of the Board, to the extent necessary for maintaining its tax-exempt status or to establish or maintain its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or the State or any political subdivision or instrumentality thereof, or in compliance with any recommendation for free services that may be made by the Management Consultant.

#### **Limitation on Encumbrances**

The Corporation shall not create, assume or suffer to exist and shall immediately satisfy or release any mortgage, deed of trust, pledge, security interest, encumbrance, lien, attachment or charge of any kind (including the charge upon property purchased under conditional sales or other title retention agreements) upon the Facilities or the Gross Revenues; *provided, however,* that notwithstanding the foregoing provision, the Corporation may create, assume or suffer to exist Permitted Encumbrances.

#### **Limitation on Indebtedness**

A. The Corporation shall not incur any indebtedness or financial obligations, including without limitation, by borrowing money, by assuming or guaranteeing the obligations of others, and by entering into installment purchase contracts or leases required to be capitalized in accordance with generally accepted accounting principles, except the Corporation may incur the following:

1. Obligations and liabilities under the Regulatory Agreement, the Loan Agreement, or the Indenture, including any supplements or amendments thereto or hereto in connection with the issuance of any additional series of Bonds;

2. Contractual liabilities (other than liabilities for borrowed money or liabilities which would otherwise be considered indebtedness under generally accepted accounting principles) for which moneys are available in the Project Fund under the Indenture or otherwise;

3. Short-Term Indebtedness with the prior written consent of the Office and provided that no amount of Short-Term Indebtedness shall be outstanding for a period of thirty (30) consecutive days during each Fiscal Year. The aggregate amount incurred by the Corporation under this subsection shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

4. Liabilities for contributions to self-insurance programs;

5. Long-Term Indebtedness (which may be Parity Debt) incurred for the purpose of refinancing outstanding Long-Term Indebtedness provided that

a. the Office has consented in writing to the incurring of such indebtedness, and

b. the issuance of such Long-Term Indebtedness does not increase Maximum Aggregate Annual Debt Service by more than ten percent (10%), as certified by a written report of an Accountant which shall be filed with the Trustee and the Office;

6. Long-Term Indebtedness (which may be Parity Debt), provided that

a. the Office has consented in writing to the incurring of such indebtedness, and

b. (1) Net Income Available for Debt Service, as certified by a written report of an Accountant which shall be filed with the Authority, the Trustee and the Office for the most recent Fiscal Year for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.25 times Maximum Aggregate Annual Debt Service on all outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, or

(2) (a) Net Income Available for Debt Service, as certified by a written report of an Accountant which shall be filed with the Trustee and the Office, for the most recent Fiscal Year for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.25 times Maximum Aggregate Annual Debt Service on all Long-Term Indebtedness then outstanding, and

(b) Net Income Available for Debt Service, as shown in a written feasibility report prepared by a Management Consultant and filed with the Trustee and the Office, for each of the first two Fiscal Years following the incurrence of such Long-Term Indebtedness (or, if such Long-Term Indebtedness is incurred to finance additional facilities, in each of the first three Fiscal Years following the Fiscal Year when it is proposed that such facilities will be completed and placed in service) is forecasted to be at least 1.25 times Maximum Aggregate Annual Debt Service on all Long-Term Indebtedness proposed to be outstanding at the end of each such Fiscal Year;

7. Long-Term Indebtedness (which may be Parity Debt), incurred to complete the Project or any other project if the Board certifies that the Corporation cannot complete such project unless such Long-Term Indebtedness is incurred, provided that

a. the Office has consented in writing to the incurring of such indebtedness, and

b. in the case of a project other than the Project, the aggregate principal amount of such indebtedness does not exceed ten percent (10%) of the principal amount of Long-Term Indebtedness incurred to finance such project;

8. Long-Term Indebtedness (excluding Parity Debt) provided that

a. the Office has consented in writing to the incurring of such indebtedness, and

b. the aggregate amount incurred by the Corporation under the Regulatory Agreement and outstanding shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

9. Liabilities under capitalized lease agreements for the lease of, or indebtedness for money borrowed or liabilities under instruments evidencing deferred payment arrangements for the purchase of, equipment, tangible personal property or real property; provided that the aggregate amount incurred by the Corporation under the Regulatory Agreement and outstanding shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the latest Fiscal Year for which audited financial statements are available;

10. Non-recourse Indebtedness, provided that the Office has approved in writing the incurrence of such indebtedness and such indebtedness does not encumber the Facilities;

11. Repayment obligations under reimbursement or similar agreements with banks or insurance companies relating to letters or lines of credit or other credit facilities used to secure Long-Term Indebtedness;

12. Indebtedness, not for borrowed money, incurred in the ordinary course of business; and

13. Any indebtedness or obligations of the Corporation consented to in writing by the Office.

**Limitations on Disposition of Property**

*A. Disposition of Cash.* The Corporation shall not dispose of any cash or cash equivalents unless

1. the Corporation receive an asset or service of reasonably equivalent value for such cash or cash equivalents; or

2. prior to such disposition, there is filed with the Office and the Trustee a Statement of the Corporation to the effect that either

a. the ratio of Net Income Available for Debt Service to Maximum Aggregate Annual Debt Service for the most recent Fiscal Year for which audited financial statements are available next preceding such disposition would not be reduced or, if reduced, would not be reduced below a ratio of 2.0:1.0 (such calculation to be made assuming such disposition had occurred at the beginning of such Fiscal Year), or

b. the average ratio of Net Income Available for Debt Service to Maximum Aggregate Annual Debt Service, as forecasted in such Statement of the Corporation for the two Fiscal Years immediately following such disposition, will be not less than a ratio of 2.0:1.0; or

3. such disposition has been consented to by the Office.

*B. Disposition of Real Property.* The Corporation shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the real property described in Exhibit A, including the buildings and structures thereon and fixtures and improvements of such real property, without the prior written consent of the Office.

*C. Disposition of Personal Property.* The Corporation shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the Facilities not included in the preceding subsections A and B, other than in the "ordinary course of business," unless the Office gives its prior written consent to such disposition. "Ordinary course of business" shall be defined during the term of the Regulatory Agreement by the Office in the exercise of its sound and reasonable discretion, by the Office giving written notice thereof to the Corporation, which determination will become effective on receipt of such notice by the Corporation.

Except as provided in the Regulatory Agreement concerning a disposition of substantially all of the Corporation's assets, in no event shall the Corporation dispose of any part or parts of its Facilities in any Fiscal Year aggregating in excess of two and one-half percent (2-1/2%) of the Corporation's net property, plant and equipment (as shown on the Corporation's most recent audited financial statements), unless the Office gives its prior written consent to such disposition.

*D. Execution of Releases.* In connection with a disposal of property, including cash, permitted by this section, upon receipt of such consent by the Office or Statement of the Corporation required by this section, the Office, the Authority and the Trustee shall execute and deliver releases from security interests or other documents reasonably requested by the Corporation.

#### **Limitation on Acquisition of Property, Plant and Equipment**

The Corporation shall not acquire additional property, plant and equipment (except (1) in the ordinary course of business, (2) with the proceeds of indebtedness permitted by the Regulatory Agreement, or (3) as part of a merger or consolidation permitted by the Regulatory Agreement) by gift (other than gifts of cash or personal property or gifts of real property if either (i) their use is residential or (ii) it is subject of a phase I report indicating no contaminants), purchase, construction, merger or consolidation, unless the Office gives its prior written consent to such acquisition.

#### **Parity Debt**

The Corporation may incur Parity Debt, subject, however to compliance with the Regulatory Agreement and the following conditions:

1. The Trustee shall act as trustee for the Parity Debt;
2. The agreement under which Parity Debt is issued shall require that:
  - a. A Loan Default Event shall constitute an event of default under such agreement and the Regulatory Agreement;
  - b. Rights and obligations of the holders of Parity Debt shall be substantially the same as the rights and obligations of the Holders of Bonds under the Indenture, except that if the Parity Debt is not covered under the Contract of Insurance, the holders of Parity Debt shall have no rights under the Contract of Insurance for payments made with respect thereto; and
  - c. Remedies upon an event of default shall be substantially the same as the remedies provided in the Indenture, the Regulatory Agreement and the Loan Agreement, and, prior to exercising any such remedies, the holders of such Parity Debt (or a trustee representing their interest) shall be required to cooperate with the Trustee to the end that the interests of such holders and the Bondowners shall be equally protected;

3. Any collateral given or to be given to secure Parity Debt shall also secure the Bonds on a pari passu basis; provided that the Bond Reserve Account shall only secure the Bonds and the Corporation may but need not establish similar reserve accounts for debt service of Parity Debt;

4. The Parity Debt shall be prepayable in accordance with terms substantially in the form of and under the conditions prescribed in the Indenture; and

5. The Parity Debt shall be insured by the Office under the Insurance Law, or if the Parity Debt can be issued as such without being insured under the Insurance Law, with the consent of the Office.

## Insurance

A. *Maintain Insurance.* The Corporation shall keep the Facilities and their operations adequately insured at all times, and, shall carry and maintain, or cause to be carried and maintained, and will pay, or cause to be paid, in timely fashion the premiums for, at least the following coverages with the limits as stated. The following coverages and limits may be varied only with the prior written consent of the Office.

### 1. Property Insurance.

a. Buildings and Structures. All buildings and structures constituting part of the Facilities shall, at a minimum, be insured using a form at least as broad as the most recent revision of the Property Special Form coverage adopted by the Insurance Services Office (ISO), subject to a reasonable deductible per occurrence, and in an amount equal to at least the lesser of the full replacement value of the property insured, or the aggregate principal amount of the Outstanding Bonds and Parity Debt. The replacement value of the Facilities shall be determined from time to time at the request of the Corporation or the Trustee (but not less frequently than once in every twenty-four months) by an architect, contractor, appraiser or appraisal company selected by the Corporation and acceptable to the Office. The Office and the Authority shall be loss payees on all policies maintained pursuant to this subdivision. The policy form shall also include a Joint Loss Endorsement as respects Boiler & Machinery insurance.

b. Business Personal Property. All business personal property, including computers and electronic data processing equipment, at any location forming part of the Facilities shall be insured using a form at least as broad as the most recent revision of the Property Special Form coverage adopted by the ISO, subject to a reasonable deductible per occurrence and in an amount equal to at least the lesser of the full replacement value of the property insured or the aggregate principal amount of the Outstanding Bonds and Parity Debt. The Office and the Authority shall be loss payees on all policies maintained pursuant to this subdivision.

c. Earthquake. All buildings, structures, and the contents thereof, shall be insured against damage resulting from earthquake and related perils in an amount equal to at least the lesser of the full replacement value of the Facilities or the aggregate principal amount of Outstanding Bonds and Parity Debt then outstanding, subject to reasonable deductibles. The Corporation shall acquire earthquake insurance unless the Office agrees in writing to waive earthquake insurance. The Office and the Authority shall be loss payees on all policies maintained pursuant to this subdivision.

d. Flood. All buildings, structures, and the contents thereof, shall be insured against damage resulting from flood and rising water in an amount equal to at least the lesser of the full replacement value of the Facilities or the aggregate principal amount of Outstanding Bonds and Parity Debt then outstanding, subject to reasonable deductibles. The Corporation shall acquire flood insurance unless the Office agrees in

writing to waive flood insurance. The Office and the Authority shall be loss payees on all policies maintained pursuant to this subdivision.

**2. Builders Risk.** During the course of any substantial addition, extension, alteration, or improvement to the Facilities, the Corporation shall maintain or cause to be maintained builders risk insurance in the amount of the full completed value of such construction work, subject to reasonable deductibles per occurrence, covering all risk of physical loss or damage with such exclusions as are acceptable to the Office. The Office and the Authority shall be loss payees on all policies maintained pursuant to this subsection.

**3. Boiler and Machinery Insurance.** The Corporation shall maintain boiler and machinery insurance providing coverage against loss of property and liability for damage to persons or property from explosion of, or accident to, boilers, tanks, pipes, pressure vessels, engines, wheels, electrical machinery, or apparatus connected therewith or operating thereby in an amount not less than \$1,000,000, subject to deductibles not exceeding \$10,000 per occurrence. The policy form shall also include Joint Loss Endorsement.

**4. Commercial General Liability Insurance.** The Corporation shall maintain Commercial General Liability Insurance for bodily injury and property damage in a form at least as broad as the most recent revision of the Commercial General Liability Policy adopted by the (ISO), including non-owned and hired automobile coverage, with limits no less than with \$1,000,000 per occurrence and annual aggregate limits equal to \$3,000,000.

**5. Automobile Insurance.** The Corporation shall maintain insurance for vehicles owned, non-owned or hired by the Corporation with at least a \$1,000,000 per accident limit.

**6. Professional Liability.** The Corporation shall maintain professional liability insurance with \$1,000,000 per occurrence and general aggregate limits equal to \$10,000,000, subject to reasonable deductibles or self-insured retention, unless otherwise agreed to in writing by the Office.

**7. Fidelity Bonds.** The Corporation shall maintain fidelity bonds or other insurance covering dishonesty, including computer fraud, covering all Corporation officers and employees who collect or have custody of or access to revenues, receipts or income of the Corporation, with limits equal to \$5,000,000, unless otherwise agreed to in writing by the Office.

**8. Business Interruption.** The Corporation shall maintain business interruption insurance covering actual losses to the Corporation of gross operating earnings which result directly from the necessary interruption of business caused by damage to or destruction of any real or personal property constituting part of the Facilities from risks covered by the insurance required above under subsection 1. Property Insurance, less charges and expenses which do not necessarily continue during such interruption of business, for such period of time as may be required, with exercise of due diligence and dispatch, to reconstruct, repair or replace such damages or destroyed property, with limits equal to at least Maximum Aggregate Annual Debt Service.

**9. Extra Expense.** The Corporation shall maintain extra expense insurance covering additional expenses for continuing operations or to resume normal business incurred by the Corporation which result directly from damage to or destruction of any real or personal property constituting part of the Facilities from the risks covered by the insurance required above under subsection 1, Property Insurance, with limits equal to at least Maximum Aggregate Annual Debt Service.

**10. Directors and Officers.** The Corporation shall maintain insurance to cover wrongful acts of the directors and officers, including entity coverage, to the extent available in a non-profit directors and officers policy form in an amount not less than \$10,000,000, unless otherwise agreed to by the Office in writing.

*B. Risk Management Consultant.* The Corporation shall employ a Risk Management Consultant to review the insurance requirements of the Corporation from time to time (but not less frequently than once every twenty-four (24) months). If the Risk Management Consultant makes recommendations for the increase of any of the coverage required by subsection A of this section, the Corporation shall increase such coverage in accordance with such recommendations, subject to a good faith determination of the Board that such recommendations, in whole or in part, are in the best interests of the Corporation. Notwithstanding anything in this section to the contrary, the Corporation shall have the right, without the giving rise to an event of default under the Regulatory Agreement solely on such account,

1. with the prior written consent of the Office, to maintain insurance coverage below that required by subsection A of this section, provided further that the Corporation shall furnish to the Trustee and the Office a Statement of the Risk Management Consultant or other evidence, satisfactory to the Office, that the insurance so provided affords the greatest amount of coverage available for the risk being insured against at rates which in the judgment of the Risk Management Consultant are reasonable in connection with reasonable and appropriate risk management, or

2. with the prior written consent of the Office, to adopt alternative risk management programs which the Board determines to be reasonable and which shall not have a material adverse impact on the Corporation's reimbursement from third party payers, including, without limitation, to self-insure in whole or in part, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws now or hereafter in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs;

all as may be approved in writing as reasonable and appropriate risk management by the Risk Management Consultant. A copy of any such approval shall be furnished to the Trustee and the Office.

#### **Disposition of Insurance and Condemnation Proceeds**

A. The proceeds of property and builders risk insurance maintained by the Corporation pursuant to the Regulatory Agreement, the proceeds of any title insurance obtained pursuant to the Regulatory Agreement and the proceeds of any condemnation awards with respect to the Facilities, shall be paid immediately upon receipt by the Corporation or other named insured parties to the Trustee, as assignee of the Authority, for deposit in a special fund which the Trustee shall establish and maintain and hold in trust, to be known as the "Insurance and Condemnation Proceeds Fund." In the event the Corporation elects to repair or replace the property damaged, destroyed or taken, it shall furnish to the Trustee and the Office plans of the contemplated repair or replacement, accompanied by a Statement of an architect or other qualified expert satisfactory to the Office estimating the reasonable cost of such repair or replacement and a Statement of the Corporation stating that amounts in the Insurance and Condemnation Proceeds Fund, together with investment income reasonably expected to be received with respect thereto and any other funds available or reasonably expected to become available therefor (and which the Corporation shall agree to deposit in said fund when so available), shall be sufficient to repair or replace the property damaged, destroyed or taken in accordance with said plans. After deducting therefrom the reasonable charges and expenses of the Trustee in connection with the collection and disbursement of such moneys, moneys in the Insurance and Condemnation Proceeds Fund shall be disbursed by the Trustee for the purpose of repairing or replacing the property damaged, destroyed or taken in the manner and subject to the conditions set forth in the Indenture with respect to disbursements from the Project Fund to the extent the provisions thereof may reasonably be made applicable. In the event that the proceeds of any loss or damage to or condemnation of the Facilities shall be less than one and one-half percent (1-1/2%) of the Corporation's Adjusted Annual Operating Revenues (as shown on the Corporation's most recent audited financial statements), and so long as an event of default under the

Regulatory Agreement has not occurred and is not then continuing, the Trustee shall pay over such proceeds to the Corporation without requiring any of the documents referred to in this subsection and without any formality whatsoever.

B. In the event the Corporation, with the consent of the Office, shall elect not to repair or replace the property damaged, destroyed or taken, as provided in subsection A of this section, the Trustee shall transfer all amounts in the Insurance and Condemnation Proceeds Fund on account of such damage, destruction or condemnation to the Special Redemption Account in order to prepay the Loan Repayments and redeem Bonds; provided that if any Parity Debt is then outstanding, any such transfer from the Insurance and Condemnation Proceeds Fund shall be deposited in part in the Special Redemption Account and in part in such other fund or account as may be appropriate (and used for the retirement of such Parity Debt) in the same proportion which the aggregate principal amount of Outstanding Bonds then bears to the aggregate unpaid principal amount of such Parity Debt.

C. If all amounts in the Insurance and Condemnation Proceeds Fund and any special redemption account for the retirement of Parity Debt exceed one and one-half percent (1-1/2%) of the Corporation's Adjusted Annual Operating Revenues (as shown on the Corporation's most recent audited financial statements) but are not sufficient to retire all Bonds and Parity Debt then outstanding, the Trustee shall not transfer said amounts to the Special Redemption Account unless the Corporation shall file with the Trustee a report of a Management Consultant showing that projected Net Income Available for Debt Service will be sufficient to pay Aggregate Debt Service for the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds and Parity Debt. In the event such report of a Management Consultant shows that projected Net Income Available for Debt Service will not be sufficient to pay Aggregate Debt Service for the three full Fiscal Years immediately following such transfer after giving effect to the retirement of such Bonds and Parity Debt, the Corporation shall apply all amounts in the Insurance and Condemnation Proceeds Fund to the repair or replacement of the property damaged, destroyed or taken, as provided in subsection A of this section, unless the Corporation shall file a further report of a Management Consultant showing that even after making such repair and replacement, projected Net Income Available for Debt Service will not be sufficient to pay Aggregate Debt Service for the three Fiscal Years immediately following such repair and replacement, in which event the Trustee shall transfer all moneys in the Insurance and Condemnation Proceeds Fund to the Special Redemption Account and/or such other trust account for the retirement of Bonds and Parity Debt, as provided in subsection B of this section.

## **Remedies Upon Default**

A. Notice and Declaration of a Default under the Regulatory Agreement. Upon a violation of any of the provisions of the Regulatory Agreement by the Corporation, the Office may give written notice thereof to the Corporation by registered or certified mail, addressed to the address stated in the Regulatory Agreement, or such other address as may subsequently, upon appropriate written notice thereof to the Office, be designated by the Corporation as its legal business address. If such violation is not corrected to the satisfaction of the Office within thirty (30) days, or in the event the default is the result of the failure of the Corporation to make a payment required to be made to the Trustee or the result of the loss or threatened loss of the license of the Corporation, then five (5) days, after the date such notice is mailed or within such further time as the Office determines in the Office's sole discretion is necessary to correct the violation, without further notice the Office may declare a default under the Regulatory Agreement effective on the date of such declaration of default.

B. Office Directives to the Corporation. Upon an event of default under the Regulatory Agreement, the Deed of Trust, the Indenture, or the Loan Agreement, the Office may conduct an evaluation of, and direct the Corporation with respect to, the management and operation of the Facilities and the expenses of the Office or any consultants associated with such evaluation and direction shall be reimbursed by the Corporation. The Corporation shall follow all such directives, which may at the option of the Office include immediately terminating and replacing the existing Management Agent with a new Management Agent selected by the Office at the expense of the Corporation. In the event of any such termination, the Management Agent shall not be entitled to compensation for more than thirty (30) days from the date of such termination. The Office may retain

attorneys and consultants to assist in such evaluation and the Corporation shall pay the reasonable fees and expenses of such attorneys and consultants and any other expenses incurred by the Office in that connection. These remedies are in addition to those provided under Insurance Law Section 129173. The Office reserves its rights to exercise all its remedies under Insurance Law Section 129173, including, but not limited to, subsection (b) wherein the Office may remove and appoint members of the governing body of the Corporation sufficient such that the new members constitute a voting majority of the governing body.

C. Payment from the Health Facility Construction Loan Insurance Fund.

1. In any case in which an Event of Default under the Indenture shall have occurred and the Trustee shall have given notice to the Office at least 30 days prior to an interest payment date, or principal payment date that:

a. available moneys in the Principal and Interest Accounts held by the Trustee pursuant to the Indenture will be insufficient to pay in full the next succeeding payment of interest and/or principal when due to the Owners under the Indenture, and

b. the amount by which the obligation to make such payment exceeds the amount available (Shortfall),

the Office shall cause an amount equal to the Shortfall to be deposited into the Principal Account and/or Interest Account at least three (3) Business Days prior to the date on which said payment is due, as provided in the following Subsections 2 and 3.

2. Said deposit shall be made by the Office directing the Trustee to transfer an amount equal to the Shortfall out of the Bond Reserve Account into the Principal Account and/or Interest Account. (However, if there are funds in the Bond Reserve Account at the time the Office receives such notice of the Shortfall from the Trustee, nothing contained in this Subsection C.2 shall prevent the Office from then determining pursuant to Insurance Law Section 129145 that the lender and borrower have exhausted all reasonable means of curing the Event of Default and that it would be in the best interest of the State, the borrower and the lender to pay a portion or all of the Shortfall from the Health Facility Construction Loan Insurance Fund instead of the Bond Reserve Account, and from paying such amount from the Health Facility Construction Loan Insurance Fund.)

3. If the Office, pursuant to Insurance Law Section 129145, determines, in the event the funds in the Bond Reserve Account are insufficient to meet the Shortfall as provided in the preceding Subsection C.2, that

a. the lender and borrower will have exhausted all reasonable means of curing the Event of Default, and

b. a payment or payments from the Health Facility Construction Loan Insurance Fund to cure the Event of Default is now and will be at the time of the Event of Default in the best interest of the State, the borrower and the lender,

the Office may pay such amount required to meet the Shortfall from the Health Facility Construction Loan Insurance Fund to the Principal Account and/or Interest Account for the benefit of the lender within the time as provided in Subsection C.1.

4. Any payment made by the Office from the Health Facility Construction Loan Insurance Fund (Fund) shall be secured pursuant to Insurance Law Section 129145 by a pro rata share of the security held by the Trustee through the Deed of Trust and all applicable UCC-1s, and, upon such payment, the Corporation shall become liable for repayment of the amount thereof to the Office upon demand and shall be liable for interest on the unpaid balance thereof at the rate of ten percent (10%) per annum.

5. If the principal of all Bonds at the time Outstanding, and the interest accrued thereon have been declared immediately due and payable pursuant to the terms of the Indenture, the Office shall make payment from the Fund, or, if the fund is insufficient to make such payment, or if the Office determines it to be in the best interest of the State, the Corporation and the Authority, the Office shall request issuance of debentures as provided in subsection D of this section.

D. Issuance of Debentures.

1. In any case in which

a. the Trustee shall have directed the foreclosure and taking possession of the Facilities under the Deed of Trust and under applicable statutes,

b. the Trustee, with the consent of the Office, shall have otherwise acquired the Facilities from the Corporation after default,

c. the Trustee, with the consent of the Office, shall have assigned to the Office the security interest created by the Deed of Trust,

d. the Trustee shall have tendered to the Office a satisfactory conveyance of title and transfer of possession of the Facilities directly from the Corporation, or other appropriate grantor, or

e. it has been determined that debentures should be issued pursuant to subsection C above,

the Trustee shall be entitled to receive the benefit of the insurance as provided in Insurance Law Sections 129125 through 129160, upon

a. the prompt conveyance to the Office of title to the Facilities or, with the consent of the Office, the security interest created by the Deed of Trust,

b. the assignment to the Office of all claims of the Authority and the Trustee against the Corporation or others arising out of the sale of the Bonds, the loan transaction or the foreclosure proceedings, except such claims as may have been released with the consent of the Office, and

c. surrender to the Office of each Bond which has been surrendered to the Trustee, which Bond shall be returned to the Trustee upon issuance of debentures and canceled by the Trustee.

2. Upon such conveyance, assignment and surrender, the Office shall request the State Treasurer to issue to the Trustee for the benefit of the Owners so surrendered, a debenture or debentures having a total face value of and bearing interest at the rate on the respective surrendered Bonds which they replace and additional debentures equal to all additional amounts due under the Indenture as provided by Insurance Law Sections 129125 through 129160.

E. Additional Remedies Available to the Office. Notwithstanding any other provision in the Regulatory Agreement or provision of law relating to the acquisition, management or disposal of real property by the State, the Office shall have the power to do any or all of the following:

1. Possess, operate, complete, lease, rent, renovate, modernize, insure, or sell for cash or credit, in its sole discretion, any properties conveyed to it in exchange for debentures as provided in the Insurance Law;

2. Pursue to final collection by way of compromise or otherwise all claims against the Corporation assigned by the Trustee to the Office; or

3. Convey and execute in the name of the Office deeds of conveyance, deeds of release, assignments and satisfactions of the Deed of Trust, and any other written instrument relating to real or personal property or any interest therein acquired by the Office.

In the event a receiver is appointed for the Corporation at the request of the Office, such receiver, if so requested by the Office, shall serve without bond.

### **Capital Replacement Fund**

A. The Corporation shall establish a separate fund designated as the "Capital Replacement Fund." For each of the Corporation's Fiscal Years beginning with the Corporation's Fiscal Years commencing on July 1, 2002, the Corporation shall deposit on a quarterly basis (i.e. on January 1, April 1, July 1 and October 1) one quarter of the Capital Replacement Amount for the respective Fiscal Year; provided that if the Corporation has received grants for the purchase of, or have purchased equipment for capital purposes, or have expended sums for the repair or maintenance of the Facilities, such grants, the value of such equipment or expended sums may be credited against the amount to be deposited as specified in a Statement of the Corporation filed with the Trustee and the Office; provided further that the Corporation may reduce the deposit required to the Capital Replacement Fund by a Capital Replacement Fund credit which shall be an amount equal to the expenditures of the Corporation for the previous Fiscal Year for property which is depreciable (in accordance with generally accepted accounting principles). In order to be entitled to receive such a credit, the Corporation must certify in writing to the Office at least fifteen (15) days prior to a required deposit to the Capital Replacement Fund:

1. the amount of such expenditure(s),
2. the election of the Corporation to have the amount of the expenditure(s) credited against the then currently payable Capital Replacement Fund deposit,
3. with respect to donated or acquired equipment, that the equipment acquired is depreciable in accordance with generally accepted accounting principles and has been included as part of the Facilities, and
4. such amount of expenditure(s) has not previously been paid from the Capital Replacement Fund or used as a Capital Replacement Fund deposit credit.

B. Moneys held in the Capital Replacement Fund may be used from time to time without the consent of the Office (except for subsections B.4 and B.5) for any of the following purposes:

1. For the acquisition of new, or the replacement of obsolete or worn out, machinery, equipment, furniture, fixtures or other personal property.
2. For the performance of repairs with respect to the Facilities which are of an extraordinary and nonrecurring nature.
3. For the construction of additions to or improvements, extensions, enlargements or remodeling of the Facilities.
4. To provide working capital for the payment of current expenses if the Corporation shall undertake in writing to repay the amount withdrawn for such purpose within fifty-two (52) weeks, provided that no such borrowing pursuant to this clause shall be outstanding for a period of at least thirty (30) consecutive days during each period of thirteen(13) consecutive months beginning with the first deposit to the Capital Replacement Fund.

5. To pay or provide funds for payment of the principal (whether pursuant to stated maturity or mandatory sinking fund or other redemption requirement) or interest on any obligations of the Corporation, but only if and to the extent that the Corporation would otherwise be unable to make such payment or provide such funds without incurring additional indebtedness.

C. The Corporation, on or prior to July 1 in each year, commencing July 1, 2004, shall calculate the Capital Replacement Amount and send written notice of such amount to the Office.

D. The Capital Replacement Fund shall be maintained and held by the Corporation and shall not constitute a Trustee-held fund, *provided, however,* that the Capital Replacement Fund, at the direction of the Office, shall be transferred to and held by the Trustee if either:

1. the annual Statement of the Corporation's Accountant demonstrates that the balance in the Capital Replacement Fund is less than the Capital Replacement Amount and the Corporation do not increase the balance in the Capital Replacement Fund to the Capital Replacement Amount within thirty (30) days of receipt of such Statement, or

2. the Gross Revenue Fund is transferred to the name and credit of the Trustee pursuant to the Loan Agreement.

**APPENDIX D**  
**FORM OF FINAL OPINION OF BOND COUNSEL**

[Letterhead of Quint & Thimmig LLP]

[Closing Date]

ABAG Finance Authority for Nonprofit Corporations  
101 Eighth Street  
Oakland, California 94607

**OPINION: \$5,000,000 ABAG Finance Authority for Nonprofit Corporations Insured Health Facility Revenue Bonds (Becoming Independent), 2004 Series A**

---

**Members of the Authority:**

We have acted as bond counsel in connection with the issuance by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") of \$5,000,000 Insured Health Facility Revenue Bonds (Becoming Independent), 2004 Series A (the "Bonds"), pursuant to Articles 1 through 4 (commencing with section 6500) of Chapter 5 of Division 7 of Title 1 of the California Government Code (the "Law"), an Indenture of Trust, dated as of January 1, 2004, by and between the Authority and U.S. Bank National Association, as trustee (the "Indenture"), and a resolution adopted by the Authority on December 17, 2003. The Bonds have been issued by the Authority to provide funds to finance the acquisition, construction, installation, improvement and equipping of certain health facilities owned and operated by Becoming Independent, a California nonprofit public benefit corporation (the "Corporation"), to be loaned to the Corporation, pursuant to a Loan Agreement, dated as of January 1, 2004, by and between the Authority and the Corporation (the "Loan Agreement"). We have examined the law and such certified proceedings and other papers as we deem necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon representations of the Authority contained in the Indenture, of the Authority and the Corporation contained in the Loan 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.

Based upon the foregoing we are of the opinion, under existing law, as follows:

1. The Authority is duly created and validly existing as a public body with the power to enter into the Indenture and the Loan Agreement, to perform the agreements on its part contained therein and to issue the Bonds.
2. The Indenture and the Loan Agreement have been duly approved by the Authority and constitute valid and binding special obligations of the Authority enforceable against the Authority in accordance with their respective terms.
3. Pursuant to the Law, the Indenture creates a valid lien on the funds pledged by the Indenture for the security of the Bonds, on a parity with other bonds (if any) issued or to be issued under the Indenture, subject to no prior lien granted under the Law.
4. The Bonds have been duly authorized, executed and delivered by the Authority and are valid and binding special obligations of the Authority, payable solely from the sources provided therefor in the Indenture.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of 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 sentence are subject to the condition that the Authority and the Corporation comply with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that such interest be, or continue to be, excluded from gross income for federal income tax purposes. The Authority and the Corporation have each covenanted to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of such interest in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

6. Interest on the Bonds is exempt from personal income taxation imposed by the State of California.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted and may also be subject to the exercise of judicial discretion in appropriate cases.

Respectfully submitted,

## APPENDIX E

### FORM OF CONTINUING DISCLOSURE CERTIFICATE

This CONTINUING DISCLOSURE CERTIFICATE (the "Disclosure Certificate") is executed by BECOMING INDEPENDENT, a California nonprofit public benefit corporation (the "Corporation"), in connection with the issuance of \$5,000,000 ABAG Finance Authority for Nonprofit Corporations Insured Health Facility Revenue Bonds (Becoming Independent), 2004 Series A (the "Bonds"). The Bonds are being issued pursuant to an Indenture of Trust dated as of January 1, 2004 (the "Indenture"), by and between the ABAG Finance Authority for Nonprofit Corporations (the "Authority") and the U.S. Bank National Association, as trustee (the "Trustee"). The proceeds of the Bonds are being loaned by the Authority to the Corporation pursuant to a Loan Agreement, dated as of January 1, 2004, by and between the Authority and the Corporation (the "Loan Agreement"). Pursuant to Section 6.10 of the Indenture and Section 5.12 of the Loan Agreement, the Corporation covenants and agree as follows:

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

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

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

"*Dissemination Agent*" shall mean the Corporation, or any successor Dissemination Agent designated in writing by the Corporation and which has filed with the Corporation, the Authority 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 any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

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

"*Rule*" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"*State Repository*" shall mean any public or private repository or entity designated by the State of California as a state repository for the purpose of the Rule and recognized as such by the Securities and Exchange Commission. As of the date of this Disclosure Certificate, there is no State Repository.

*Section 3. Provision of Annual Reports.* The Corporation shall, or shall cause the Dissemination Agent to, after such materials are available, commencing for the fiscal year ending June 30, 2003, provide to any person who requests it an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate, with a copy to the Trustee. An Annual Report shall consist of the most recently available documents of the type to be included in the Annual Report (see Section 4) at the time the request is received.

*Section 4. Content of Annual Reports.* The Corporation's Annual Report shall contain the following:

(a) Audited financial statements prepared in accordance with generally accepted accounting principles.

(b) In addition to any of the information expressly required to be provided under paragraph (a) of this Section, the Corporation shall provide such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

*Section 5. Reporting of Significant Events.*

(a) Pursuant to the provisions of this Section 5, the Corporation shall give, or cause to be given, notice of the occurrence of any of the following events with respect to the Bonds, if material:

- (i) Principal and interest payment delinquencies.
- (ii) Non-payment related defaults.
- (iii) Unscheduled draws on debt service reserves reflecting financial difficulties.
- (iv) Unscheduled draws on credit enhancements reflecting financial difficulties.
- (v) Substitution of credit or liquidity providers, or their failure to perform.
- (vi) Adverse tax opinions or events affecting the tax-exempt status of the security.
- (vii) Modifications to rights of security holders.
- (viii) Contingent or unscheduled bond calls.
- (ix) Defeasances.
- (x) Release, substitution, or sale of property securing repayment of the securities.
- (xi) Rating changes.

(b) Whenever the Corporation obtains knowledge of the occurrence of a Listed Event, the Corporation shall as soon as possible determine if such event would be material under applicable Federal securities law.

(c) If the Corporation determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Corporation shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and each 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 Bonds pursuant to the Indenture.

*Section 6. Termination of Reporting Obligation.* The Corporation's obligations under this Disclosure Certificate shall terminate upon the legal defeasance, prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Corporation shall give notice of such termination in the same manner as for a Listed Event under Section 5(c).

*Section 7. Dissemination Agent.* The Corporation may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The initial Dissemination Agent shall be the Corporation.

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

(a) if the amendment or waiver relates to the provisions of Section 3, 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or 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 Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) the proposed amendment or waiver either (i) is approved by holders of the Bonds in the manner provided in the Indenture for amendments to the Indenture with the consent of holders, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the holders or beneficial owners of the Bonds.

If the annual financial information or operating data to be provided in the Annual Report is amended pursuant to the provisions hereof, the annual financial information 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 Corporation 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).

*Section 9. Additional Information.* Nothing in this Disclosure Certificate shall be deemed to prevent the Corporation 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 Corporation 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 Corporation 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 Corporation to comply with any provision of this Disclosure Certificate, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation 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 Loan Agreement, and the sole remedy under this Disclosure Certificate in the event of any failure of the Corporation to comply with this Disclosure Certificate shall be an action to compel performance.

*Section 11. Duties, Immunities and Liabilities of Dissemination Agent.* The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the Corporation agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Corporation under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

*Section 12. Beneficiaries.* This Disclosure Certificate shall inure solely to the benefit of the Corporation, the Trustee, the Dissemination Agent, the Participating Underwriters and holders and beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity.

Date: [Closing Date]

BECOMING INDEPENDENT

By \_\_\_\_\_  
John E. McCue,  
Chief Executive Officer

**APPENDIX F**  
**FEASIBILITY STUDY**

# **HENDRICKSON CONSULTING**

---

1505 Bridgeway – Suite 101, Sausalito, California 94965  
Tel: (415) 332-7169 – Fax: (415) 332-7684 – E-Mail: [Bill.Hendrickson@SBCGlobal.net](mailto:Bill.Hendrickson@SBCGlobal.net)

**FINAL REPORT**

**BECOMING INDEPENDENT**

**FEASIBILITY REPORT**

**JULY 24, 2003**

# HENDRICKSON CONSULTING

---

1505 Bridgeway – Suite 101, Sausalito, California 94965  
Tel: (415) 332-7169 – Fax: (415) 332-7684 – E-Mail: Bill.Hendrickson@SBCGlobal.net

July 24, 2003

John E. McCue  
Chief Executive Officer  
Becoming Independent  
1425 Corporate Center Parkway  
Santa Rosa, CA 95047

Dear Mr. McCue:

We are pleased to submit this feasibility study for Becoming Independent (BI). The proceeds of the \$5.0 million 2004 Bonds will be used to refinance the May 2003 purchase of a 23,000 square foot building, to refinance improvement costs already completed, and to finance additional improvements to the new building as well as BI's existing administrative office building. All improvements are scheduled to be completed by March 2004.

BI is a 501(c)3 corporation formed in 1980 for the purposes of providing services to adults with developmental disabilities. Since then BI has grown to one of the largest providers of these services in the North Bay and currently serves approximately 650 individuals and their families each year and employs more than 280 staff. BI primarily serves Sonoma County from facilities in Santa Rosa, Healdsburg, and Rohnert Park, and Sonoma.

The 2004 Bonds are anticipated to be issued in January 2004 and insured through Cal Mortgage. The 2004 Bonds are expected to have a 25-year term with approximately level debt service. The forecasts are based on an estimated average coupon rate of 4.80%. Interest payments to bondholders will begin on July 1, 2004. Annual principal payments will be made to bondholders beginning on January 1, 2005.

To evaluate the financial feasibility of the project we have reviewed critical information sources, including the following:

- the key revenue sources for BI;
- the key expenses for BI;
- the estimated costs and timing of the project, and
- the terms and structure of the proposed bond issue.

The information obtained through this review has been used to forecast financial statements for the fiscal years ending June 30, 2004 to 2008. Based on our evaluation, the debt coverage ratio is expected to equal or exceed 1.36x maximum annual debt service in all forecast years. In addition, the sources of funds will be adequate to meet operating expenses, working capital, and other capital requirements.

The forecasts contained in this report are based on several assumptions. To the extent that these assumptions are not realized, the actual results may vary accordingly. Implementation of policies and procedures to attain the forecast results is the responsibility of BI and its management. Since forecasts of future events are subject to uncertainty, we cannot guarantee these forecasts as specific results that will be achieved.

We appreciate the assistance provided by BI management during the preparation of this study.

Sincerely,

William D. Hendrickson

William D. Hendrickson  
Hendrickson Consulting

# TABLE OF CONTENTS

---

<b>I.</b>	<b>FINANCIAL FORECASTS</b>	<b>1</b>
<b>II.</b>	<b>FINANCIAL FORECAST ASSUMPTIONS</b>	
	A. Introduction	4
	B. Description of the Project	6
	C. Revenue Assumptions	9
	D. Expense Assumptions	13
	E. Forecast of Key Ratios	16
	F. Sensitivity Analysis	17
<b>III.</b>	<b>ESTIMATE OF MARKET DEMAND</b>	
	A. Introduction	18
	B. Estimate of Demand	19
	C. Conclusions	24

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

**SECTION I  
 BECOMING INDEPENDENT  
 STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
 (\$000s)**

<b>Year Ending June 30</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>REVENUES</b>								
Service Fees	\$7,656	\$8,524	\$8,600	\$8,760	\$8,760	\$9,023	\$9,293	\$9,572
School District Subsidies	478	462	440	420	420	433	446	459
Work Activities Revenue	412	374	410	410	410	422	435	448
Other Revenue	404	337	370	410	491	503	430	441
<b>Total Revenues</b>	<b>\$8,950</b>	<b>\$9,697</b>	<b>\$9,820</b>	<b>\$10,000</b>	<b>\$10,081</b>	<b>\$10,380</b>	<b>\$10,604</b>	<b>\$10,921</b>
<b>EXPENSES</b>								
Salaries/Benefits	\$7,170	\$7,532	\$7,960	\$8,000	\$8,011	\$8,249	\$8,502	\$8,751
Other Expenses	1,274	1,313	1,370	1,400	1,442	1,485	1,427	1,470
Depreciation/Amortization	184	201	230	348	366	368	373	380
Interest	93	85	94	280	289	283	277	270
<b>Total Expenses</b>	<b>\$8,721</b>	<b>\$9,131</b>	<b>\$9,654</b>	<b>\$10,029</b>	<b>\$10,109</b>	<b>\$10,386</b>	<b>\$10,579</b>	<b>\$10,870</b>
<b>Increase in Unrestr. Net Assets</b>	<b>\$229</b>	<b>\$566</b>	<b>\$166</b>	<b>(\$29)</b>	<b>(\$28)</b>	<b>(\$5)</b>	<b>\$25</b>	<b>\$50</b>
<b>Changes in T. Restr. Net Assets</b>	<b>(\$180)</b>	<b>\$28</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>
<b>INCREASE IN NET ASSETS</b>	<b>\$49</b>	<b>\$594</b>	<b>\$166</b>	<b>(\$29)</b>	<b>(\$28)</b>	<b>(\$5)</b>	<b>\$25</b>	<b>\$50</b>

**SECTION I  
BECOMING INDEPENDENT  
STATEMENT OF FINANCIAL POSITION  
(\$000s)**

<b>Year Ending June 30</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>ASSETS</b>								
Cash & Equivalents	\$448	\$939	\$700	\$752	\$711	\$676	\$669	\$678
Accounts Receivable	809	911	830	1,096	1,105	1,138	1,162	1,197
Other	35	72	80	82	85	87	90	93
<b>Current Assets</b>	<b>\$1,292</b>	<b>\$1,922</b>	<b>\$1,610</b>	<b>\$1,930</b>	<b>\$1,901</b>	<b>\$1,901</b>	<b>\$1,921</b>	<b>\$1,967</b>
Other Assets	\$7	\$14	\$0	\$0	\$0	\$0	\$0	\$0
Investments - Restricted	0	0	0	0	0	0	0	0
Bond Funds - Restricted	138	138	140	483	483	483	483	483
Net Property	1,834	1,885	5,380	6,590	6,423	6,261	6,100	5,939
<b>TOTAL ASSETS</b>	<b>\$3,271</b>	<b>\$3,959</b>	<b>\$7,130</b>	<b>\$9,003</b>	<b>\$8,807</b>	<b>\$8,645</b>	<b>\$8,504</b>	<b>\$8,389</b>
<b>LIABILITIES</b>								
Accounts Payable/Accrued Exp.	\$561	\$683	\$580	\$773	\$777	\$800	\$816	\$840
Other Liabilities	0	0	0	0	0	0	0	0
Current Portion - Long-term Debt	42	45	45	172	180	182	189	196
<b>Current Liabilities</b>	<b>\$603</b>	<b>\$728</b>	<b>\$625</b>	<b>\$945</b>	<b>\$957</b>	<b>\$982</b>	<b>\$1,005</b>	<b>\$1,036</b>
Long-term Debt Payable	\$1,402	\$1,370	\$4,571	\$6,153	\$5,973	\$5,791	\$5,602	\$5,406
<b>TOTAL LIABILITIES</b>	<b>\$2,005</b>	<b>\$2,098</b>	<b>\$5,196</b>	<b>\$7,098</b>	<b>\$6,930</b>	<b>\$6,773</b>	<b>\$6,607</b>	<b>\$6,442</b>
<b>FUND BALANCE</b>								
Unrestricted	\$969	\$1,535	\$1,701	\$1,672	\$1,644	\$1,639	\$1,664	\$1,714
Temporarily Restricted	296	324	232	232	232	232	232	232
Permanently Restricted	1	1	1	1	1	1	1	1
<b>TOTAL LIAB./FUND BALANCE</b>	<b>\$3,271</b>	<b>\$3,958</b>	<b>\$7,130</b>	<b>\$9,003</b>	<b>\$8,807</b>	<b>\$8,645</b>	<b>\$8,504</b>	<b>\$8,389</b>

**SECTION I  
BECOMING INDEPENDENT  
STATEMENT OF CASH FLOWS  
(\$000s)**

<b>Year Ending June 30</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>CASH FLOW - OPERATING ACTIVITIES</b>								
Increase in Net Assets	\$49	\$594	\$166	(\$29)	(\$28)	(\$5)	\$25	\$50
Depreciation & Amortization	184	201	230	348	366	368	373	380
Changes in Assets/Liabilities	413	(58)	(16)	(76)	(7)	(12)	(11)	(13)
<b>Net Cash From Operating Activities</b>	<b>\$646</b>	<b>\$737</b>	<b>\$380</b>	<b>\$244</b>	<b>\$332</b>	<b>\$351</b>	<b>\$387</b>	<b>\$417</b>
<b>CASH FLOW - INVESTING ACTIVITIES</b>								
Project Expenditures	\$0	\$0	(\$3,454)	(\$994)	\$0	\$0	\$0	\$0
Other Property Expenditures	(154)	(218)	(271)	(300)	(200)	(206)	(212)	(219)
Other	0	(7)	0	0	0	0	0	0
<b>Net Cash From Investing Activities</b>	<b>(\$154)</b>	<b>(\$225)</b>	<b>(\$3,725)</b>	<b>(\$1,294)</b>	<b>(\$200)</b>	<b>(\$206)</b>	<b>(\$212)</b>	<b>(\$219)</b>
<b>CASH FLOW - FINANCING ACTIVITIES</b>								
2003 Bonds	\$0	\$0	\$0	\$5,000	\$0	\$0	\$0	\$0
Bond Issuance Costs	0	0	0	(472)	0	0	0	0
Commerical Loans	0	0	3,246	(3,246)	0	0	0	0
Other	0	7	(92)	208	0	0	0	0
Principal Payments	(54)	(29)	(45)	(45)	(172)	(180)	(182)	(189)
<b>Net Cash From Financing Activities</b>	<b>(\$54)</b>	<b>(\$22)</b>	<b>\$3,109</b>	<b>\$1,445</b>	<b>(\$172)</b>	<b>(\$180)</b>	<b>(\$182)</b>	<b>(\$189)</b>
<b>Net Change in Cash &amp; Invest.</b>	<b>\$438</b>	<b>\$490</b>	<b>(\$236)</b>	<b>\$395</b>	<b>(\$40)</b>	<b>(\$35)</b>	<b>(\$7)</b>	<b>\$9</b>
<b>End Of Year Cash &amp; Investments</b>	<b>\$586</b>	<b>\$1,076</b>	<b>\$840</b>	<b>\$1,235</b>	<b>\$1,194</b>	<b>\$1,159</b>	<b>\$1,152</b>	<b>\$1,161</b>
Unrestricted	448	938	700	752	711	676	669	678
Restricted - Bonds/Other	138	138	140	483	483	483	483	483

## **II. FINANCIAL FORECAST ASSUMPTIONS**

### **A. DESCRIPTION OF BECOMING INDEPENDENT**

#### **BACKGROUND**

Becoming Independent (BI) is a 501(c)(3) non-profit organization which provides vocational, instructional, and support services to developmentally disabled adults. BI was founded in 1980 and has since grown to the largest provider of these services in the North Bay. BI currently serves approximately 700 clients through their Adult Day Services (ADS), Community Living Services (CLS), Employment Services (ES), and Transportation Services (TS) programs. BI employs a total of 280 staff (240 full-time equivalents).

BI currently occupies six facilities (excluding the 1455) in four cities in Sonoma County and two facilities in Napa County. BI owns one 15,400 square foot building in Santa Rosa on 1425 Corporate Center Parkway (1425 Building) which it uses as its principal offices and for day programs. The remaining five leased buildings contain approximately 15,000 square feet. In May 2003 BI purchased a 23,000 square foot building at 1455 Corporate Center Parkway (the 1455 Building), adjacent to the 1425 Building. The primary purpose of the proposed \$5.0 million tax-exempt bond issue is to refinance \$3.25 million loans used to purchase the 1455 Building. Other funds will be used to remodel the 1425 and 1455 Buildings.

#### **FUNDING SOURCES AND PROGRAMS**

BI receives in excess of 80% of its funds from the California State Department of Developmental Services (DDS). DDS provides funds to BI through the North Bay Regional Center (NBRC), one of 21 Regional Centers in the State. BI is the by far the largest recipient of NBRC funds. The remaining 20% of BI revenues are provided by School Districts, the State Department of Rehabilitation (DR), contract sales, and other sources (e.g. contributions). BI revenues (and expenses) increased by about 10% between fiscal year (FY) 2001 and FY 2003 as a result of expansion in all program categories. A summary of BI's programs is discussed below.

For purposes of discussion, BI programs are divided into four categories:

- Adult Day Services
- Community Living Services
- Employment Services
- Transportation Services

Adult Day Services and Community Living Services account for 85% of all BI expenditures.  
**Adult Day Services**

Adult Day Services (ADS) provide a broad-based curriculum focusing on functional living skills, community access, and vocational training. These programs are licensed by DSS as “adult daycare facilities” and are primarily funded by the DDS through the NBRC. BI has five licensed facilities in Santa Rosa, Healdsburg, and Sonoma and serves approximately 370 clients at any time (300 in Santa Rosa). In FY 2003, ADS accounted for \$5.7 million (59%) of BI’s revenues. Approximately \$4.9 million of this total was funded by the NBRC with the remainder by two school districts and contract sales. Clients typically spend several years in this program.

### **Community Living Services**

Community Living Services (CLS) provide skills training and support services to approximately 240 clients learning to live independently in their own residences. CLS also assists parents with developmental disabilities in providing quality parenting. CLS programs accounted for \$2.7 million (28%) of BI’s revenues in FY 2003. The NBRC provided nearly all of these funds.

### **Employment Services**

BI Employment Services (ES) provides competitive employment for approximately 120 individuals through personnel placement, on-the-job training and ongoing support in Sonoma and Napa Counties. Employment services account for \$340,000 (3%) of BI revenues and are funded by the DR.

### **Transportation Services**

BI provides Transportation Services (TS) to approximately 200 ADS participants. The program accounts for approximately \$730,000 (7%) of BI revenues and is funded by the NBRC.

## **THE BOARD OF DIRECTORS**

BI is governed by a 12-member Board of Directors, which meets monthly. The Board is responsible for organizational overview and sets general policy and approves budgets. The six-member Finance committee provides financial oversight to BI and meets monthly.

## **B. DESCRIPTION OF THE PROJECT**

## **PURPOSE**

The proceeds of the 2004 Bonds will be primarily used to refinance commercial loans used to purchase and remodel the 1455 Corporate Center Parkway building (1455 Building).

### **1455 Corporate Center Parkway Building Purchase and Remodel**

In May 2003 BI completed the purchase of the 1455 Building. With the acquisition, BI increased its total space in the Corporate Center Business Park to 46,100 square feet (SF); 23,000 SF in the 1455 building, 15,400 SF in an adjacent building (1425 Corporate Center Parkway) owned by BI, and 7,700 SF in two leased buildings on Northpoint Parkway near the 1455 Building. In addition to the 1455 Building, the recent purchase included 1.9 acres of adjacent land. After remodeling is completed in November 2003, BI plans to relocate ADS programs (Work Services, Art Works) currently housed in the 7,700 SF leased space to the new building as well as portions of programs and administrative functions in its owned 1425 Building. The 1455 Building will also accommodate future expansion for Senior programs, a computer learning center, and an expanded reading center. BI expects to sublease as much of the 7,700 SF leased space as possible. BI's lease ends in June 30, 2006.

BI obtained \$3.25 million in loans from three sources to purchase the 1455 Building. These include a \$2.54 million loan from the National Bank of the Redwoods at a variable rate (currently 5.5%) for five years, a \$510,000 loan from the Northern California Community Loan Fund at 7.5% for three years, and a \$200,000 loan from the former 1455 Building owner at 7.0% for three years. These loans, combined with approximately \$208,000 (\$169,000 down payment, \$39,000 closing costs) in BI cash funded the purchase price (\$3.46 million).

BI will begin remodeling the 1455 Building in July and has estimated total remodeling expenses at \$600,000. Remodeling expense estimates have been provided by Barnard Construction and include approximately \$500,000 for tenant improvements and \$100,000 for seismic upgrades. All expenditures are expected to be completed by November 2003. BI expects to receive all permits and contractor bids for this work by August 2003.

### **Remodel of 1425 Corporate Center Parkway**

BI expects to use approximately \$209,000 of 2004 Bond proceeds along with up to \$100,000 in cash to complete tenant improvements to its 1425 Building. Work is expected to begin on these improvements in January 2004 and end by March 2004. BI expects to receive building permits and contractor estimates by October 2003.

## **SOURCES AND USES OF FUNDS**

An estimate of sources and uses for the financing of the project is shown in Table II-1. The equity contribution consists of prepaid and future cash payments. The purchase price and related remodeling costs have been provided by BI. The financing and debt service reserve estimates have been provided by Altura, Nelson & Co., BI's investment banker. Also included are the underwriter's discount and other issuance costs. The one-time Cal Mortgage fee is estimated at 3.0% of combined principal and interest payments.

**TABLE II-1  
BECOMING INDEPENDENT  
SOURCES AND USES OF FUNDS  
(\$000s)**

Bond Proceeds	\$5,000
Cash - Prepays	208
Cash - Other	55
<b>Total Sources</b>	<b>\$5,263</b>
Refinance Loan for Purchase	\$3,246
Assessments/Taxes	185
Down Payment/Closing Costs	208
Improvements - 1455 Building	600
Improvements - 1425 Building	209
Costs of Issuance/Fees	123
Underwriter's Discount	60
Original Issue Discount	7
Appraisal/Cal EPA Fees	6
Cal Mortgage Fees	276
Debt Service Reserve	343
<b>Total Uses</b>	<b>\$5,263</b>

**ESTIMATED DEBT SERVICE**

Altura, Nelson & Co. estimates that the 2004 Bonds will be issued with a final maturity of 25 years and maximum annual fixed coupon rates of approximately 4.80%. Interest payments will be due on July 1 and January 1, beginning on July 1, 2004. Principal payments will be due on January 1, beginning in 2005. A preliminary debt service schedule for the forecast period is shown in Table II-2.

BI's other debt includes \$1.37 million in bonds remaining on a \$1.67 million 1996 Bond issue. The loan term ends in FY 2021. Annual debt payments average \$120,000.

**TABLE II-2  
BECOMING INDEPENDENT  
HISTORICAL AND FORECAST DEBT EXPENSES  
(\$000s)**

<b>Year Ending June 30</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>INTEREST EXPENSE</b>								
1996 Bonds	\$93	\$85	\$82	\$79	\$77	\$74	\$71	\$68
2004 Bonds	0	0	0	107	212	209	206	202
Commercial Loans	0	0	12	94	0	0	0	0
Other	0	0	0	0	0	0	0	0
<b>Total Interest</b>	<b>\$93</b>	<b>\$85</b>	<b>\$94</b>	<b>\$280</b>	<b>\$289</b>	<b>\$283</b>	<b>\$277</b>	<b>\$270</b>
<b>PRINCIPAL</b>								
1996 Bonds	\$40	\$42	\$45	\$45	\$47	\$50	\$52	\$54
2004 Bonds	0	0	0	0	125	130	130	135
Commercial Loans	0	0	0	0	0	0	0	0
Other	0	0	0	0	0	0	0	0
<b>Total Principal</b>	<b>\$40</b>	<b>\$42</b>	<b>\$45</b>	<b>\$45</b>	<b>\$172</b>	<b>\$180</b>	<b>\$182</b>	<b>\$189</b>

## **C. FORECAST OF REVENUES**

BI's primary revenue source is the State Department of Developmental Services (DDS), which provides approximately 85% of BI's total \$10 million in annual revenues through the North Bay Regional Center (NBRC) and largely funds the ADS, CLS, and TS programs. The remainder is provided by School Districts (4%), contract billing (4%) DR funds (3%), contributions (3%) and other income (1%). DR is the primary funding source for Employment Services (ES). A summary of service utilization and revenue is shown in Table II-3. Utilization is projected to remain at current (beginning of FY 2004) levels. This is a conservative assumption that does not reflect any expansion potential resulting from the recent acquisition of the 1455 Building.

## **NORTH BAY REGIONAL CENTER**

The NBRC is the primary source of funding for BI, providing more than 85% of the funding for ADS programs, and 100% of the funding for CLS and TS programs. BI revenues from NBRC increased by more than 10% from fiscal year (FY) 2001 to FY 2003 and are budgeted to exceed \$8.3 million in FY 2004.

The NBRC is funded exclusively by the DDS, which provides funding for developmentally disabled programs through 21 Regional Centers, which are separate 501(c)(3) organizations. Each Regional Center is funded based on the estimated number of clients and associated costs in their geographic area. The Community Service system, including Regional Centers, was established under the Lanterman Act passed by the State Legislature in 1969 and is defined as an entitlement program.

The NBRC provides funding to approximately 6,000 persons in Sonoma, Napa, and Solano Counties either directly or through contracts with other providers. In FY 2003 NBRC had 1,400 provider contracts totaling \$70 million. BI was the single largest of these at \$8.3 million with the next largest (Upper Solano ARC) totaling \$6.4 million. BI has been the largest recipient of NBRC funding for at least the last 10 years.

### **Adult Day Services**

In FY 2003 the NBRC provided \$4.9 million of the total \$5.7 million ADS revenues. ADS rates are set by a formula based on BI costs. Rates are paid on a per diem basis and range from \$36 to \$81 per day based on client need. BI's rates average of \$60-\$65 per attended client day. There are a total of 250 potential client days in a year. Since FY 2001 utilization has grown from an average of 320 clients to 350 clients in FY 2003. Rates were increased by approximately 10% in December 2000 but have not been increased since then. BI expects that FY 2004 and FY 2005 rates will remain at FY 2003 levels. After this, rates are expected to increase by an average of 3.0% per year.

**TABLE II-3  
BECOMING INDEPENDENT  
HISTORICAL AND FORECAST REVENUES  
(\$000s)**

<b>Year Ending June 30</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>DAY SERVICES - SANTA ROSA</b>								
Average Rate Per Day - DDS	\$58.46	\$54.90	\$54.74	\$53.07	\$53.07	\$54.66	\$56.30	\$57.99
Average Annual Clients	260.0	270.0	285.0	300.0	300.0	300.0	300.0	300.0
Average Annual Days per Client	250	250	250	250	250	250	250	250
<b>Total Revenue</b>	<b>\$3,800</b>	<b>\$3,706</b>	<b>\$3,900</b>	<b>\$3,980</b>	<b>\$3,980</b>	<b>\$4,099</b>	<b>\$4,222</b>	<b>\$4,349</b>
<b>DAY SERVICES - OTHER</b>								
Average Rate Per Day - DDS	\$61.02	\$62.65	\$59.69	\$60.00	\$60.00	\$61.80	\$63.65	\$65.56
Average Annual Clients	59.0	62.0	65.0	70.0	70.0	70.0	70.0	70.0
Average Annual Days per Client	250	250	250	250	250	250	250	250
<b>Total Revenue</b>	<b>\$900</b>	<b>\$971</b>	<b>\$970</b>	<b>\$1,050</b>	<b>\$1,050</b>	<b>\$1,082</b>	<b>\$1,114</b>	<b>\$1,147</b>
<b>COMMUNITY LIVING SUPPORT (CLS)</b>								
Average Rate Per Month - DDS	\$751	\$1,010	\$971	\$917	\$917	\$944	\$972	\$1,002
Average Annual Clients	228.0	231.0	230.0	240.0	240.0	240.0	240.0	240.0
<b>Total Revenue</b>	<b>\$2,056</b>	<b>\$2,800</b>	<b>\$2,680</b>	<b>\$2,640</b>	<b>\$2,640</b>	<b>\$2,719</b>	<b>\$2,801</b>	<b>\$2,885</b>
<b>EMPLOYMENT SUPPORT</b>								
Average Rate Per Day - DR	\$14.00	\$12.23	\$12.73	\$12.00	\$12.00	\$12.36	\$12.73	\$13.11
Average Annual Clients	100.0	120.0	110.0	120.0	120.0	120.0	120.0	120.0
Average Annual Days per Client	250	250	250	250	250	250	250	250
<b>Total Revenue</b>	<b>\$350</b>	<b>\$367</b>	<b>\$350</b>	<b>\$360</b>	<b>\$360</b>	<b>\$371</b>	<b>\$382</b>	<b>\$393</b>
<b>TRANSPORTATION</b>								
Average Rate Per Day - DDS	\$12.94	\$15.11	\$14.74	\$14.97	\$14.97	\$15.42	\$15.89	\$16.36
Average Annual Clients	170.0	180.0	190.0	195.0	195.0	195.0	195.0	195.0
Average Annual Days per Client	250	250	250	250	250	250	250	250
<b>Total Day/Res. Revenue</b>	<b>\$550</b>	<b>\$680</b>	<b>\$700</b>	<b>\$730</b>	<b>\$730</b>	<b>\$752</b>	<b>\$774</b>	<b>\$798</b>
<b>TOTAL SERVICE FEES</b>	<b>\$7,656</b>	<b>\$8,524</b>	<b>\$8,600</b>	<b>\$8,760</b>	<b>\$8,760</b>	<b>\$9,023</b>	<b>\$9,293</b>	<b>\$9,572</b>
<b>SCHOOL SUBSIDIES</b>								
Santa Rosa JC - SRDS	\$395	\$381	\$360	\$340	\$340	\$350	\$361	\$372
Other School Districts - Other DS	\$83	\$81	\$80	\$80	\$80	\$82	\$85	\$87
<b>Total School Subsidies</b>	<b>\$478</b>	<b>\$462</b>	<b>\$440</b>	<b>\$420</b>	<b>\$420</b>	<b>\$433</b>	<b>\$446</b>	<b>\$459</b>
<b>WORK ACTIVITIES - CONTRACT LABOR</b>								
SRDS	\$350	\$306	\$340	\$340	\$340	\$350	\$361	\$372
Other DS	\$62	\$68	\$70	\$70	\$70	\$72	\$74	\$76
<b>Total Work Activities Revenue</b>	<b>\$412</b>	<b>\$374</b>	<b>\$410</b>	<b>\$410</b>	<b>\$410</b>	<b>\$422</b>	<b>\$435</b>	<b>\$448</b>
<b>OTHER REVENUE</b>								
Contributions/Grants	\$193	\$260	\$340	\$300	\$309	\$318	\$328	\$338
Other	\$12	\$23	\$20	\$50	\$52	\$53	\$55	\$56
Sublease	\$0	\$0	\$0	\$40	\$80	\$82	\$0	\$0
Interest Earnings (w Debt Reserve)	\$7	\$9	\$10	\$20	\$50	\$49	\$48	\$48
Net Assets Released from Restrict.	\$192	\$45	\$0	\$0	\$0	\$0	\$0	\$0
<b>Total Other Revenue</b>	<b>\$404</b>	<b>\$337</b>	<b>\$370</b>	<b>\$410</b>	<b>\$491</b>	<b>\$503</b>	<b>\$430</b>	<b>\$441</b>
<b>TOTAL REVENUE</b>	<b>\$8,950</b>	<b>\$9,697</b>	<b>\$9,820</b>	<b>\$10,000</b>	<b>\$10,081</b>	<b>\$10,380</b>	<b>\$10,604</b>	<b>\$10,921</b>

## **Community Living Services**

In FY 2003 the NBRC provided nearly 100% of BI's \$2.7 million in CLS revenues. Rates are negotiated between BI and NBRC and range from \$450 per month to \$6,000 per month depending on the needs of the client. As shown in Table II-3, average rates per client are approximately \$900 per month. Rates were last increased in April 2001. The number of CLS clients has remained stable over the last few years at approximately 230 and is currently at 240. Rates in FY 2004 and FY 2005 are expected to remain at FY 2003 levels. Thereafter, rates are forecast to increase by 3.0% per year.

## **Transportation Services**

The NBRC funds the TS program on a "Live Hour Rate" basis at a current level of \$51 per hour. In FY 2003 BI provided transportation services to a daily average of 190 clients, who were transported to and from ADS centers. The current rate structure was adopted in April 2003. Prior to that, transportation was reimbursed based on a per diem rate. Rates are expected to remain stable in FY 2004 and FY 2005 and to increase by 3.0% per year thereafter.

## **SCHOOL DISTRICTS**

BI receives about \$450,000 (5%) of its revenues in the form of subsidies from three school districts for its Santa Rosa and Sonoma Valley ADS programs and its CLS program. The primary source is a subsidy from the Santa Rosa Junior College (about \$380,000) to provide adult education services to its Santa Rosa ADS students. The Sonoma Valley and the Cotati-Rohnert Park Unified School Districts fund the remainder. In FY 2004 and FY 2005 revenues are projected to remain flat. Thereafter revenues are projected to increase by 3.0% per year.

## **STATE DEPARTMENT OF REHABILITATION**

The State DR funds BI's ES programs. Rates are based on a combination of statutory rates and cost reimbursement and are paid to support clients either who have been placed in a job but need ongoing support or who are in the process of being placed. The number of clients served in this program has grown from 100 in FY 2001 to 120 in FY 2003. Rates are expected to remain stable in FY 2004 and FY 2005. Thereafter, rates are forecast to increase by 3.0% per year.

## **CONTRACT BILLING**

Contract billing revenues are received from various employers who contract with BI for client services (e.g. janitorial, assembly, recycling). Companies include Agilent Technologies, the County of Sonoma, and Empire Waste Management. Revenues have remained stable at about \$400,000

since FY 2001 and are expected to remain stable in FY 2004 and FY 2005 and increase by 3.0% thereafter.

## **CONTRIBUTIONS**

BI receives about \$300,000 each year in net cash contributions from special events, corporations, and individuals. Contributions grew from \$190,000 in FY 2001 to about \$300,000 in FY 2003 and FY 2003. BI expects contributions to grow in FY 2004. To be conservative contributions are kept at FY 2003 levels in FY 2004 and are increased by 3.0% per year thereafter.

## **OTHER REVENUE**

Other revenue includes miscellaneous program income and interest income. Other revenue accounts for less than 1% of total BI revenue.

### **Other Income**

Other income includes program revenue. In FY 2003 program revenue was about \$10,000. In FY 2004 BI expects this total to increase to at least \$50,000 due to the recent agreements to provide contract services for bookkeeping and management training. This is expected to continue through the forecast period, increasing by 3.0% per year.

### **Northpoint Sublease Income**

BI will attempt to rent out the 7,700 square feet leased on Northpoint near the 1425 and 1455 Buildings. The forecasts assume that the space can be subleased at about 80% of the current \$1.05 per square foot rate beginning in January 2004. This will continue until the Northpoint lease expires in June 2006.

### **Interest Income**

Interest is estimated at 3.5% on prior year unrestricted cash balances and a weighted average of 5.0% on 1996 and 2004 Bond debt reserves.

## **D. FORECAST OF EXPENSES**

Forecasts of expenses are based on a review of FY 2001 and FY 2002 audited financial statements, FY 2003 internal statements through June, the FY 2004 budget, and discussions with management. Salaries and benefits account for more than 85% of total operating expenses (excluding depreciation and interest). Occupancy (e.g. rent, utilities, food and housekeeping) and other program expenditures (e.g. transportation, consultants, insurance) account for 15% of total expenditures. Operating expenses (excluding interest and depreciation) are expected to increase by approximately \$200,000 in FY 2004. A summary of historical and forecast operating expenses is shown in Table II-4.

### **SALARIES AND BENEFITS**

BI currently employs approximately 235 full time equivalents (FTEs); 215 FTEs in Program Services, and 20 in Supporting services (e.g. management, fundraising). ADS and CLS programs respectively account for 135 and 60 Program Service FTEs. Health and retirement benefits and payroll taxes are equal to approximately 34% of total paid salaries. Salaries and benefits increased by approximately 6% from FY 2001 to FY 2003. Average salaries are forecast to increase by 0.0% in FY 2004 and FY 2005 and by 3.0% per year thereafter. In response to expected State budget impacts, BI has budgeted an approximate 5 FTE staff reduction in FY 2004, resulting in projected lower salaries than in FY 2003. An additional 2 FTEs are expected to be reduced in FY 2005 in response to continuing budget pressures, and remain stable thereafter.

### **OTHER EXPENSES**

In FY 2003 other expenses totaled \$1.3 million, or about 15% of total expenses excluding depreciation and interest. Other expenses have remained stable since FY 2001. Other expenses are projected to increase by 3.0% per year after FY 2004.

#### **Rental Expenses**

In FY 2004 will pay about \$1.05 per square foot for 7,700 square feet with cost of living escalations (estimated at 3.0% per year) effective September 1 of each year thereafter. The lease expires on June 30, 2006.

**TABLE II-4  
BECOMING INDEPENDENT  
HISTORICAL AND FORECAST EXPENSES  
(\$000s)**

<b>Year Ending June 30</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>SALARIES/BENEFITS</b>								
Average Staff Salaries	\$23,817	\$23,838	\$24,167	\$24,255	\$24,255	\$24,983	\$25,732	\$26,504
FTEs	230.0	240.0	240.0	235.0	233.0	233.0	233.0	233.0
Total Staff Salaries (000s)	\$5,478	\$5,721	\$5,800	\$5,700	\$5,651	\$5,821	\$5,996	\$6,176
Client Salaries	\$264	\$254	\$240	\$270	\$270	\$278	\$286	\$295
<b>Total Salaries (000s)</b>	<b>\$5,742</b>	<b>\$5,975</b>	<b>\$6,040</b>	<b>\$5,970</b>	<b>\$5,921</b>	<b>\$6,099</b>	<b>\$6,282</b>	<b>\$6,471</b>
Benefits/Taxes	\$1,428	\$1,557	\$1,920	\$2,030	\$2,090	\$2,150	\$2,220	\$2,280
Percent Benefits/Taxes	25%	26%	32%	34%	35%	35%	35%	35%
<b>TOTAL SALARIES/BENEFITS</b>	<b>\$7,170</b>	<b>\$7,532</b>	<b>\$7,960</b>	<b>\$8,000</b>	<b>\$8,011</b>	<b>\$8,249</b>	<b>\$8,502</b>	<b>\$8,751</b>
<b>OTHER EXPENSES</b>								
Professional Fees	\$72	\$78	\$100	\$100	\$103	\$106	\$109	\$113
Rent - Northpoint	90	92	93	94	97	100	0	0
Rent - Other	94	101	97	98	101	104	107	110
Supplies	203	208	200	200	206	212	219	225
Travel/Vehicle Expenses	306	345	360	350	361	371	382	394
Insurance	154	55	80	80	82	85	87	90
Repairs and Maintenance	95	103	100	100	103	106	109	113
Fund-Raising	25	46	30	50	52	53	55	56
Other	235	285	310	328	338	348	358	369
<b>Total Other Expenses</b>	<b>\$1,274</b>	<b>\$1,313</b>	<b>\$1,370</b>	<b>\$1,400</b>	<b>\$1,442</b>	<b>\$1,485</b>	<b>\$1,427</b>	<b>\$1,470</b>
<b>EXPENSES W/O INT/DEP</b>	<b>\$8,444</b>	<b>\$8,845</b>	<b>\$9,330</b>	<b>\$9,400</b>	<b>\$9,453</b>	<b>\$9,734</b>	<b>\$9,929</b>	<b>\$10,220</b>

## **DEPRECIATION**

Annual depreciation expenses have been calculated using a straight-line method over the estimated useful life of the assets. Existing assets are estimated to have an average useful life of 20 years. The new project is estimated to have a 40-year useful life. Financing costs are amortized over the 25-year life of the bonds. Ongoing capital expenditures are estimated at \$200,000 per year. Ongoing capital expenditures are depreciated over 10 years and are assumed to be completed throughout the year.

## **INTEREST EXPENSES**

Interest expenses are incurred for the 2004 Bonds and other debt. The interest payments on all debt are shown in Table II-2.

## **FORECAST OF BALANCE SHEET ACCOUNTS**

Balance sheet account forecasts are based on a review of audited and unaudited financial statements from FY 2001 to FY 2003 and discussions with management.

- Cash balances are derived from the Statement of Cash Flows.
- Accounts receivable are forecast at 40 days of revenues.
- Other Current Assets (e.g. prepaids, inventory) are forecast to increase by 3.0% per year.
- Accounts Payable/Accrued Expenses are forecast at 30 days of operating expenses less depreciation and interest.
- Current portion of Bonds are based on the proposed and historical debt schedules.

## E. KEY FINANCIAL RATIOS

Debt service coverage measures the annual cash flow available to meet debt payments on the 2003 Bonds and other debt. As shown in Table II-5, total debt service coverage is forecast to exceed 1.36x in all forecast years. Unrestricted cash reserves exceed 24 days in all forecast years.

**TABLE II-5  
BECOMING INDEPENDENT  
DEBT COVERAGE AND OTHER KEY RATIOS  
(\$000s)**

<b>Year Ending June 30</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
<b>CASHFLOW BEFORE DEBT SERVICE</b>								
Increase in Net Assets	\$49	\$594	\$166	(\$29)	(\$28)	(\$5)	\$25	\$50
Depreciation/Amortization	184	201	230	348	366	368	373	380
Interest Expense	93	85	94	280	289	283	277	270
<b>Cashflow Before Debt Service</b>	<b>\$326</b>	<b>\$880</b>	<b>\$490</b>	<b>\$600</b>	<b>\$627</b>	<b>\$646</b>	<b>\$675</b>	<b>\$700</b>
<b>DEBT SERVICE</b>								
Principal	\$54	\$29	\$45	\$45	\$172	\$180	\$182	\$189
Interest	93	85	94	280	289	283	277	270
<b>Total Debt Service</b>	<b>\$147</b>	<b>\$114</b>	<b>\$139</b>	<b>\$325</b>	<b>\$461</b>	<b>\$463</b>	<b>\$459</b>	<b>\$459</b>
<b>Unrestricted Cash Balances</b>	<b>\$448</b>	<b>\$938</b>	<b>\$700</b>	<b>\$752</b>	<b>\$711</b>	<b>\$676</b>	<b>\$669</b>	<b>\$678</b>
<b>Annual Debt Coverage</b>	<b>2.22</b>	<b>7.72</b>	<b>3.52</b>	<b>1.84</b>	<b>1.36</b>	<b>1.40</b>	<b>1.47</b>	<b>1.52</b>
<b>Days Cash on Hand</b>	<b>19</b>	<b>38</b>	<b>27</b>	<b>28</b>	<b>27</b>	<b>25</b>	<b>24</b>	<b>24</b>

## F. SENSITIVITY ANALYSIS

To assess the impact of more pessimistic assumptions than those contained in the base case forecasts shown in Section I, sensitivity analyses have been conducted for three scenarios. A summary of the resulting debt coverage ratios is shown in Table II-6.

### SENSITIVITY FORECASTS

In Scenario 1, DDS and DR rates are reduced by 5% in FY 2004 and remain at those levels through FY 2005. This could result from State budget pressures. In this event, BI is expected to reduce expenses to offset revenue losses. Based on an analysis of expense categories, BI estimates that it can reduce salaries and benefits by about two-thirds (\$330,000) of the approximate \$500,000 in lower revenue.

In Scenario 2, BI fails to sublease its Northpoint facilities.

In Scenario 3, interest rates are increased by 1.0% over the 4.80% base case estimates.

**TABLE II-6  
BECOMING INDEPENDENT  
DEBT COVERAGE SENSITIVITY ANALYSES  
(\$000s)**

<b>Year Ending June 30</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
BASE CASE	1.84	1.36	1.40	1.47	1.52
SCENARIO 1	1.34	1.00	1.03	1.09	1.13
SCENARIO 2	1.72	1.19	1.22	1.47	1.52
SCENARIO 3	1.50	1.26	1.30	1.36	1.41

### **III. DEMAND FOR SERVICES**

#### **A. INTRODUCTION**

BI provides serves adults with developmental disabilities, including mental retardation, autism, epilepsy, cerebral palsy, and related conditions. BI provides its clients with a broad variety of vocational, instructional and support services through its core Adult Day Service (ADS), Community Living Service (CLS), and Employment Service (ES) programs.

Since opening in 1980, BI's programs have operated at effective full capacity. This has been due to three factors: the increasing demand for developmentally disabled services, the referral patterns from various public agencies, and success in obtaining government contracts. Like other social service agencies, utilization levels at BI are limited more by funding than by market demand. The various funding sources are discussed in Section II.

To assess the demand for vocational and support services, we have reviewed available demographic and utilization-related information, reviewed special studies discussing the need for these services, and interviewed BI and North Bay Regional Center (NBRC) management.

#### **DEFINITION OF SERVICE AREA**

BI serves residents in Sonoma, Napa, and Solano Counties. Its primary service area (PSA) is Sonoma County, which accounts for all of its 370 ADS clients and about 80% of its 240 CLS and 90% of its 120 ES clients. Since FY 2001 Napa and Solano Counties have grown as a source for BI clients. BI expects the Napa and Solano County growth to continue but also expects increased growth in its ADS program in Sonoma as a result of the increased capacity from the 1455 Building and expected consolidation amongst developmentally disabled service providers.

#### **POPULATION ESTIMATES**

Approximately 470,000 peoples live in Sonoma County, BI's PSA. The population is projected to reach 500,000 by 2010. Napa and Solano County currently have populations of 130,000 and 410,000. Solano County has experienced rapid growth since 1990 and is expected to exceed 470,000 by 2010. Napa's population is projected to exceed 140,000.

## **B. ESTIMATE OF DEMAND**

Demand for BI services can be estimated from reviewing available statistics on developmentally disabled adults and on an examination of BI's referral patterns. The impact of funding on BI referrals is discussed in Section II.

### **INDICATIONS OF DEVELOPMENTALLY DISABLED DEMAND**

Approximately 1%-2% of the adult population is defined as developmentally disabled. Applying this proportion to BI's service area indicates approximately 4,500 adults in Sonoma County and 4,000 and 1,500 in Solano and Napa Counties. The number of developmentally disabled residents is expected to increase in proportion to the general population in these areas, indicating roughly 11,000 adult developmentally disabled residents in the three counties by 2010.

#### **North Bay Regional Center Statistics**

The NBRC currently serves approximately 5,800 developmentally disabled persons of all ages; 2,600 in Sonoma County, 2,500 in Solano County, and 700 in Napa County. This represents about one-third of the total estimated developmentally disabled population. Although not all of the developmentally disabled population requires the services funded by the NBRC, NBRC estimates that many of the developmentally disabled residents who would benefit from these services are not being addressed.

Table III-1 shows a summary of adult (18+) developmentally disabled served by NBRC. BI does not serve the approximately 2,600 children funded by NBRC. As shown, the total number of adults funded by NBRC has doubled since 1988, with most of the growth in Solano County. Also shown in the table is the total for Adult Day Programs, BI's primary service category. As shown, there are approximately 1,300 adults served by these programs. Adult Day programs have grown rapidly as a greater emphasis has been placed on a community approach to working with the developmentally disabled.

**TABLE III-1  
BECOMING INDEPENDENT  
NORTH BAY REGIONAL CENTER STATISTICS**

<b>County of Residence</b>	<b>1988</b>	<b>2003</b>	<b>Change</b>
Sonoma	800	1,400	75%
Solano	590	1,340	127%
Napa	210	400	90%
<b>All Adult Clients (18+)</b>	<b>1,600</b>	<b>3,140</b>	<b>96%</b>
Residential Care Adult Clients	990	1,210	22%
Adult Day Program Clients	610	1,340	120%

**NOTES**

(1) Excludes persons residing in State Development Centers in Sonoma County.

Source: NBRC Consumer Statistical Analysis - 15 Year Comparison Study

## **BECOMING INDEPENDENT MARKET SHARE**

Table III-2 shows a summary of client market share statistics for BI. NBRC serves approximately 1,340 persons in programs defined as "Adult Day Programs". This category includes several types of programs, including Day Training Activity Centers (DTAC), Adult Development Centers (ADC), and Behavior Management Services (BMS). There is overlap amongst these subcategories and BI has clients in all three. BI is one approximately seven Adult Day Program vendors in Sonoma County. As shown, BI is the main vendor in Sonoma County, serving approximately 70% of all clients. The remaining six vendors are much smaller than BI with none serving more than 10% of the total clients. BI does not serve Adult Day Program clients in Solano or Napa Counties.

Community Living Service (CLS) clients are categorized as Supported Living (SL) or Independent Living (IL) by NBRC. As shown, BI currently served approximately 230 CLS clients in FY 2003, including 180 in Sonoma. In total NBRC funds 740 SL/IL clients. BI's market share is highest in Sonoma County.

Finally, Table III-2 shows BI's market share of Employment Services (ES). The State Department of Rehabilitation (DR) funds a total of 530 clients in the three counties who also fall under the types of services provided by BI. BI has an estimated 58% market share in Sonoma County.

### **Becoming Independent Referrals**

Further indications of demand are reflected in the ongoing demand for BI's programs. BI continuously refers clients with urgent issues to other agencies due to insufficient capacity.

**TABLE III-2  
BECOMING INDEPENDENT  
MARKET SHARE STATISTICS FOR 2003**

	<b>BI</b>	<b>NBRC</b>	<b>Share</b>
<b>Adult Day Programs</b>			
Sonoma	350	510	69%
Solano	0	690	0%
Napa	0	140	0%
<b>Total/Average</b>	<b>350</b>	<b>1,340</b>	<b>26%</b>
<b>Community/Independent Living Services</b>			
Sonoma	180	420	43%
Solano	20	180	11%
Napa	30	140	21%
<b>Total/Average</b>	<b>230</b>	<b>740</b>	<b>31%</b>
<b>Employment Services</b>			
Sonoma	105	180	58%
Solano	0	200	0%
Napa	15	150	10%
<b>Total/Average</b>	<b>120</b>	<b>530</b>	<b>23%</b>

Source: NBRC Consumer Statistical Analysis - 15 Year Comparison Study

## **OTHER DEVELOPMENTALLY DISABLED SERVICE PROVIDERS**

There are approximately 1,400 service providers funded by the NBRC. Approximately 5-10 of these provide services comparable to BI's Adult Day Service (ADS) in Sonoma County. Another 5-10 provide Community Living Service (CLS) programs in all three counties. Another three providers are funded by the DR for programs comparable to BI's Employment Service (ES) program. The following is a list of key providers. As shown, BI is significantly larger than its other competitors.

- **Old Adobe Development Services (OADS)** is located in Petaluma and serves approximately 260 ADS clients and 30 ES clients, mostly in Southern Sonoma County. OADS is the second largest provider funded by the NBRC in Sonoma County. OADS services are comparable to BI's ADS and ES programs. The primary difference between BI and OADS is that OADS does not serve people with significant health care needs, and is more limited for growth in its current facilities.
- **Dungarvin** is located in Santa Rosa and provides services comparable to BI's ADS. Dungarvin services approximately 50 ADS clients. Dungarvin's lack of CLS and ES services limits their client's community access and work opportunities.
- **Redwood Empire Industries (REI)** is located in Santa Rosa and provides services comparable to BI's ADS and ES programs. REI serves approximately 20 ADS clients and approximately 25 ES clients. REI does not have the job development staff comparable to BI, limiting opportunities for their clients.
- **The Oaks of Hebron** is located in Rohnert Park and provides CLS services to approximately 85 adults and is the second largest provider (behind BI) of CLS services in Sonoma County. Their main difference with BI is they do not serve clients requiring a high level of support (e.g. parents with disabilities).

While there are several other providers who compete with BI, they are either much smaller (e.g. 20-40 total clients) or are more prominent in counties where BI does not have a strong presence.

## **C. CONCLUSIONS**

The demand for BI services is a function of the number of developmentally disabled adults needing vocational and support services, and the availability of funding. As discussed above, the need for vocational and support services is expected at a minimum to continue at present levels. BI is the largest provider of these services in the North Bay, and this position is not expected to change in the foreseeable future. A description and evaluation of funding sources has been provided in Section II. Funding levels are more difficult to forecast, due to the potential for reductions to meet federal, state, and local budget shortfalls. Although the State has increased funding for developmentally disabled programs in the last few years, recent economic downturns could result in a reduction of these funds. BI has the ability to partially offset these reductions by reducing expenses, as shown in Section II.

**BASE CASE  
BECOMING INDEPENDENT  
KEY RATIOS**

<b>Year Ending June 30</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Current Ratio (1)	2.1	2.6	2.6	2.0	2.0	1.9	1.9	1.9
Days Cash On Hand (2)	19	38	27	28	27	25	24	24
Days in Accounts Receivable (3)	33	34	31	40	40	40	40	40
Days in Accounts Payable (4)	24	28	23	30	30	30	30	30
Equity Ratio (5)	29.6%	38.8%	23.9%	18.6%	18.7%	19.0%	19.6%	20.4%
Operating Margin (6)	0.5%	6.1%	1.7%	-0.3%	-0.3%	-0.1%	0.2%	0.5%
Debt Service Coverage (7)	2.22	7.72	3.52	1.84	1.36	1.40	1.47	1.52

(1) Current Assets / Current Liabilities

(2) Cash x 365 days / (Total Operating Expenses - Depreciation)

(3) Accounts Receivable \* 365 / Total Revenues

(4) Accounts Payable \* 365 / (Salaries/Benefits + Other Expenses)

(5) Unrestricted Fund Balances / Total Assets

(6) Increase in Net Assets / Total Revenues

(7) [(Increase in Net Assets + Interest + Depreciation) / [Principal + Interest]

**SCENARIO 1  
BECOMING INDEPENDENT  
KEY RATIOS**

<b>Year Ending June 30</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Current Ratio (1)	2.1	2.6	2.6	1.9	1.7	1.4	1.2	1.1
Days Cash On Hand (2)	19	38	27	23	16	8	1	-6
Days in Accounts Receivable (3)	33	34	31	40	40	40	40	40
Days in Accounts Payable (4)	24	28	23	30	30	30	30	30
Equity Ratio (5)	29.6%	38.8%	23.9%	17.1%	15.7%	14.1%	12.7%	11.4%
Operating Margin (6)	0.5%	6.1%	1.7%	-1.9%	-1.9%	-1.7%	-1.5%	-1.3%
Debt Service Coverage (7)	2.22	7.72	3.52	1.37	1.00	1.03	1.09	1.13

(1) Current Assets / Current Liabilities

(2) Cash x 365 days / (Total Operating Expenses - Depreciation)

(3) Accounts Receivable \* 365 / Total Revenues

(4) Accounts Payable \* 365 / (Salaries/Benefits + Other Expenses)

(5) Unrestricted Fund Balances / Total Assets

(6) Increase in Net Assets / Total Revenues

(7) [(Increase in Net Assets + Interest + Depreciation) / (Principal + Interest)]

**SCENARIO 2  
BECOMING INDEPENDENT  
KEY RATIOS**

<b>Year Ending June 30</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Current Ratio (1)	2.1	2.6	2.6	2.0	1.9	1.7	1.7	1.7
Days Cash On Hand (2)	19	38	27	27	22	17	16	16
Days in Accounts Receivable (3)	33	34	31	40	40	40	40	40
Days in Accounts Payable (4)	24	28	23	30	30	30	30	30
Equity Ratio (5)	29.6%	38.8%	23.9%	18.2%	17.5%	17.0%	17.5%	18.3%
Operating Margin (6)	0.5%	6.1%	1.7%	-0.7%	-1.1%	-0.9%	0.2%	0.4%
Debt Service Coverage (7)	2.22	7.72	3.52	1.72	1.19	1.22	1.47	1.52

(1) Current Assets / Current Liabilities

(2) Cash x 365 days / (Total Operating Expenses - Depreciation)

(3) Accounts Receivable \* 365 / Total Revenues

(4) Accounts Payable \* 365 / (Salaries/Benefits + Other Expenses)

(5) Unrestricted Fund Balances / Total Assets

(6) Increase in Net Assets / Total Revenues

(7) [(Increase in Net Assets + Interest + Depreciation)] / [(Principal + Interest)]

**SCENARIO 3  
BECOMING INDEPENDENT  
KEY RATIOS**

<b>Year Ending June 30</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>
Current Ratio (1)	2.1	2.6	2.6	2.0	1.9	1.8	1.8	1.7
Days Cash On Hand (2)	19	38	27	28	24	21	19	18
Days in Accounts Receivable (3)	33	34	31	40	40	40	40	40
Days in Accounts Payable (4)	24	28	23	30	30	30	30	30
Equity Ratio (5)	29.6%	38.8%	23.9%	18.4%	18.2%	18.1%	18.3%	18.8%
Operating Margin (6)	0.5%	6.1%	1.7%	-0.5%	-0.6%	-0.4%	-0.1%	0.1%
Debt Service Coverage (7)	2.22	7.72	3.52	1.50	1.26	1.30	1.36	1.41

(1) Current Assets / Current Liabilities

(2) Cash x 365 days / (Total Operating Expenses - Depreciation)

(3) Accounts Receivable \* 365 / Total Revenues

(4) Accounts Payable \* 365 / (Salaries/Benefits + Other Expenses)

(5) Unrestricted Fund Balances / Total Assets

(6) Increase in Net Assets / Total Revenues

(7) [Increase in Net Assets + Interest + Depreciation] / [Principal + Interest]

## APPENDIX G

### DTC AND THE BOOK-ENTRY ONLY SYSTEM

*The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be. Neither the issuer of the Bonds (the "Issuer") nor the trustee or fiscal agent appointed with respect to the Bonds (the "Trustee") take any responsibility for the information contained in this Appendix.*

*No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.*

**DTC and Its Participants.** The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

***Book-Entry Only System.*** Purchases of the Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest evidenced by the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the

responsibility of such Participant and not of DTC (nor its nominee), the Issuer or the Trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of, premium, if any, and interest evidenced by the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer or the Trustee, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

***Discontinuance of DTC Services.*** In the event that (a) DTC determines not to continue to act as securities depository for the Bonds, or (b) the Issuer determines that DTC will no longer so act and delivers a written certificate to the Trustee to that effect, then the Issuer will discontinue the Book-Entry Only System with DTC for the Bonds. If the Issuer determines to replace DTC with another qualified securities depository, the Issuer will prepare or direct the preparation of a new single separate, fully registered Bond for each maturity of the Bonds registered in the name of such successor or substitute securities depository as are not inconsistent with the terms of the indenture or fiscal agent agreement executed in connection with the Bonds. If the Issuer fails to identify another qualified securities depository to replace the incumbent securities depository for the Bonds, then the Bonds will no longer be restricted to being registered in the Bond registration books in the name of the incumbent securities depository or its nominee, but will be registered in whatever name or names the incumbent securities depository or its nominee transferring or exchanging the Bonds designates.

If the Book-Entry Only System is discontinued, the following provisions would also apply: (i) the Bonds will be made available in physical form, (ii) principal of, and redemption premiums, if any, on, the Bonds will be payable upon surrender thereof at the corporate trust office of the Trustee, (iii) interest on the Bonds will be payable by check mailed by first-class mail or, upon the written request of any Owner of \$1,000,000 or more in aggregate principal amount of Bonds received by the Trustee on or prior to the 15th day of the calendar month immediately preceding the interest payment date, by wire transfer in immediately available funds to an account with a financial institution within the continental United States of America designated by such Owner, and (iv) the Bonds will be transferable and exchangeable as provided in the indenture or fiscal agent agreement executed in connection with the Bonds.

**(THIS PAGE INTENTIONALLY LEFT BLANK)**

**APPENDIX H**  
**SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY**

(THIS PAGE INTENTIONALLY LEFT BLANK)

## FINANCIAL GUARANTY INSURANCE POLICY

**Obligor:** Prior to the Exchange (as defined herein): ABAG Finance Authority For Nonprofit Corporations  
After the Exchange: Office of the Statewide Health Planning and Development  
As used herein, the term "Exchange" shall mean the exchange of ABAG Finance Authority For Nonprofit Corporations Insured Health Facility Revenue Bonds (Becoming Independent) 2003 Series A For debentures to be issued by the Office of Statewide Health Planning and Development pursuant to Section 129130 of the California Health Facility Construction Loan Insurance Law (the "Debentures")

**Bonds:** Prior to the Exchange: ABAG Finance Authority For Nonprofit Corporations Insured Health Facility Revenue Bonds (Becoming Independent) 2003 Series A  
After the Exchange: the Debentures

**Bond Trustee:** Prior to the Exchange: \_\_\_\_\_  
After the Exchange: the trustee for the Debenture holders

**Insurance Trustee:**

**Policy Number:**

**Premium:**

**Radian Asset Assurance Inc.** ("Insurer"), a corporation organized under the laws of the State of New York, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably guarantees the payment of the Obligation (hereinafter defined) to the Insurance Trustee for the benefit of the Holders (hereinafter defined) from time to time of the Bonds. This Policy does not insure against any risk other than nonpayment of the Obligation by or on behalf of the Obligor or any other obligor to the Bond Trustee. Nonpayment includes recovery from a Holder of Bonds or the Bond Trustee of any portion of the Obligation pursuant to a final judgment by any court of competent jurisdiction holding that such payment constituted a voidable preference within the meaning of any applicable bankruptcy law.

Upon receipt by the Insurer of telephonic or telegraphic notice, such notice subsequently confirmed to the Insurer in writing by registered or certified mail, from the Insurance Trustee that the Obligor (or other obligor responsible for payment of the Obligation) has failed to provide the Bond Trustee with sufficient funds for payment of the Obligation on the Due Date (hereinafter defined), the Insurer shall, not later than such Due Date or the first business day after receipt of such notice, whichever is later, pay to the Insurance Trustee for the benefit of the Holders of the Bonds an amount which shall be sufficient to pay the Obligation, but only upon receipt by the Insurer, in a form reasonably satisfactory to it, of (a) evidence of the Holder's right to receive such payment and (b) evidence, including any appropriate instruments of assignment, that all the Holder's rights with respect to such payment shall thereupon vest in the Insurer.

"Due Date" means, when referring to the principal of the Obligation, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund prepayment and does not refer to any earlier date on which payment is due by reason of any other call for redemption, acceleration or other advancement of maturity unless the Insurer shall elect, in its sole discretion, to pay such principal due upon such redemption, acceleration or other advancement of maturity together with

any accrued interest to the date of redemption, acceleration or other advancement of maturity. Tendering of payment, to the Bond Trustee, of such principal due upon such redemption, acceleration or other advancement of maturity, together with any accrued interest to the date of such redemption, acceleration or other advancement of maturity, shall satisfy the Insurer's obligations under this Policy, in full. When referring to interest on the Obligation, "Due Date" means the stated date for payment of interest.

The Insurer shall, to the extent of any payment made by it pursuant to this Policy, be deemed to have acquired and become the Holder of the Bonds or portions thereof or interest thereon paid from such payment and shall be fully subrogated to all rights to payment thereof.

As used herein, the term "Holder" or "Holders" means the registered owners of the Bonds as indicated in the registration books maintained by the Bond Trustee for such purpose at the time of nonpayment of the Obligation. The terms "Holder" or "Holders" shall not include the Obligor or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligation. As used herein, the term "Bond Trustee" means the Bond Trustee above named and any successor trustee duly appointed. As used herein, the term "Insurance Trustee" means the Insurance Trustee above named and any successor insurance trustee duly appointed. As used herein, the term "Obligation" means the payment of principal and interest regularly scheduled to be paid on the Bonds, which shall have become due for payment but shall be unpaid on the Due Date, but does not include any premium payable with respect to the Bonds, nor any redemption (except mandatory sinking fund redemption), acceleration or other advancement of maturity.

This Policy is non-cancelable for any reason. Premiums paid on this Policy are not refundable for any reason including without limitation the payment prior to maturity of the Bonds.

IN WITNESS WHEREOF, the Insurer has caused this Policy to be issued to the Insurance Trustee for the benefit of the Holders from time to time of the Bonds and to be executed and delivered by its duly authorized officer to become effective and binding upon the Insurer by virtue of the execution and delivery thereof on this \_\_\_\_ day of \_\_\_\_\_, 20\_\_\_\_.

**RADIAN ASSET ASSURANCE INC.**

By: \_\_\_\_\_  
Name: [ANALYST]  
Title: [TITLE]

In the event the insurer becomes insolvent, any claims arising under this policy are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 15.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

This policy is not covered by the Property/Casualty Insurance Security Fund established by Article 76 of the New York Insurance Law.