NOT NEW ISSUES —Book Entry Only **RATINGS: See "RATINGS" herein**

In the opinion of Holland & Knight LLP, Bond Counsel, rendered on May 2, 2007, in reliance on certain schedules referred to herein and assuming compliance with certain arbitrage rebate and other tax requirements referred to herein, under then-existing law, interest on the Series 2007A Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference in computing the federal alternative minimum tax. Interest on the Series 2007A Bonds will, however, be taken into account in computing an adjustment made in determining a corporate Series 2007A Bondholder's alternative minimum tax based on such Series 2007A Bondholder's adjusted current earnings. It is also the opinion of Bond Counsel, rendered on May 2, 2007, that interest on the Series 2007B Bonds is NOT EXCLUDED from gross income for federal income tax purposes. It is further the opinion of Bond Counsel, rendered on May 2, 2007, that, under then-existing law, interest on the Series 2007 Bonds is exempt from present personal income taxes imposed by the State of California. For a description of the consequences to holders of the Series 2007 Bonds of other provisions of the Internal Revenue Code of 1986, as amended, see "TAX MATTERS" herein.

REOFFERING CIRCULAR

relating to

$45,645,000

ABAG Finance Authority for Nonprofit Corporations

Variable Rate Revenue Refunding Bonds, Series 2007

(Casa De Las Campanas, Inc.)

Consisting of:

$28,700,000	**$16,945,000**
Series 2007A (Tax-Exempt)	**Series 2007B (Taxable)**
Maturity: September 1, 2037	**Maturity: September 1, 2037**
CUSIP NO: 00037CJM3	**CUSIP NO: 00037CJN1**

Original Issuance Date: May 2, 2007 **Remarketing Price: 100%**

This Reoffering Circular is intended to supplement the Official Statement dated April 25, 2007 (the "Original Official Statement"), authorized in connection with the sale of the ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds, Series 2007 (Casa De Las Campanas, Inc.) (the "Series 2007 Bonds") consisting of the $28,700,000 Variable Rate Revenue Refunding Bonds, Series 2007A (Tax-Exempt) (the "Series 2007A Bonds") and the $16,945,000 Variable Rate Revenue Refunding Bonds, Series 2007B (Taxable) (the "Series 2007B Bonds") all of which are currently outstanding. The Series 2007 Bonds originally were issued by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") on May 2, 2007 pursuant to a Bond Trust Indenture dated as of May 1, 2007 (the "Original Bond Indenture"), between the Authority and U.S. Bank National Association, as bond trustee (the "Bond Trustee"). The Original Bond Indenture will be amended and restated pursuant to the terms of an Amended and Restated Bond Trust Indenture dated as of February 1, 2008 between the Authority and the Bond Trustee (the "Bond Indenture").

Pursuant to the provisions of the Original Bond Indenture, Casa De Las Campanas, Inc. (the "Corporation") has provided notice of its intention to terminate the Liquidity Facility and deliver to the Bond Trustee the Letters of Credit (as defined below). On and after February 7, 2008 (the "Conversion Date"), each series of the Series 2007 Bonds will be secured by, and principal of and interest and purchase price of such series of the Series 2007 Bonds will be payable from amounts drawn by the Bond Trustee under, a separate irrevocable transferable direct pay letter of credit (each a "Letter of Credit" and together, the "Letters of Credit") to be issued by JPMorgan Chase Bank, National Association (the "Letter of Credit Issuer").

Each Letter of Credit shall expire (subject to earlier termination) on February 7, 2009, but may be extended or replaced as described herein and as provided in the Bond Indenture and the Letter of Credit Agreement (as defined herein).

On the Conversion Date, the Series 2007A Bonds will convert to the Daily Mode and interest on the Series 2007A Bonds will accrue at a Daily Rate determined by J.P. Morgan Securities Inc., in its capacity as remarketing agent (the "Remarketing Agent"). Thereafter, a new interest rate for the Series 2007A Bonds will be determined by the Remarketing Agent on each Business Day. The Series 2007B Bonds will continue in the Weekly Mode for the period from and including the Conversion Date to and including February 13, 2008, and interest on the Series 2007B Bonds will accrue at a Weekly Rate determined by the Remarketing Agent on the Conversion Date. Thereafter, a new interest rate for the Series 2007B Bonds will be determined by the Remarketing Agent on Wednesday of each week (or the preceding Business Day if Wednesday is not a Business Day) and generally be effective from Thursday to and including the immediately succeeding Wednesday. While in the Daily Mode or the Weekly Mode, interest shall be payable monthly, on the first Business Day of each month, commencing March 3, 2008, and on the maturity dates of the Series 2007 Bonds. So long as The Depository Trust Company ("DTC") or its nominee, Cede & Co., is the registered owner of the Series 2007 Bonds, such payments will be made directly to DTC or such nominee.

The Series 2007 Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity in accordance with the terms of the Bond Indenture. The Series 2007 Bonds are also subject to optional and mandatory tender for purchase prior to maturity as described herein.

THE SERIES 2007 BONDS AND ALL PAYMENTS TO BE MADE BY THE AUTHORITY UNDER THE BOND INDENTURE ARE NOT GENERAL OBLIGATIONS OF THE AUTHORITY BUT ARE SPECIAL LIMITED OBLIGATIONS PAYABLE SOLELY FROM THE PAYMENTS UNDER A CREDIT FACILITY OR LIQUIDITY FACILITY AND AS PROVIDED IN THE BOND INDENTURE AND IN THE LOAN AGREEMENT. THE SERIES 2007 BONDS WILL NOT CONSTITUTE A DEBT OR LIABILITY OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS, THE STATE OF CALIFORNIA OR OF ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY STATE CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION AND WILL NOT CONSTITUTE A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF. THE ISSUANCE OF THE SERIES 2007 BONDS WILL NOT DIRECTLY, INDIRECTLY OR CONTINGENTLY OBLIGATE THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO LEVY ANY FORM OF TAXATION THEREFOR OR TO MAKE ANY APPROPRIATION FOR THEIR PAYMENT. THE AUTHORITY HAS NO TAXING POWER.

This Reoffering Circular describes the Series 2007 Bonds only in the Daily Mode and the Weekly Mode. If a series of the Series 2007 Bonds is changed to a different Mode, another supplement to the Original Official Statement or a new Reoffering Circular will be prepared. All, and not less than all, of a series of the Series 2007 Bonds will operate in one Mode at any given time.

The ABAG Finance Authority for Nonprofit Corporations has not participated in the preparation of this Reoffering Circular, makes no representations with respect hereto or is in any manner responsible for any of the information contained herein, for the issuance of the Letters of Credit or for the remarketing of the Series 2007 Bonds.

On the Conversion Date, a legal opinion will be delivered with respect to the tax status of the Series 2007A Bonds and other matters by Holland & Knight LLP, San Francisco, California, Bond Counsel to the Corporation. Certain legal matters will be passed upon for the Corporation by its counsel, Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California and for the Letter of Credit Issuer by its special counsel, Winston & Strawn LLP, Chicago, Illinois.

The date of this Reoffering Circular is February 5, 2008.

Remarketing of

$45,645,000
ABAG Finance Authority for Nonprofit Corporations
Variable Rate Revenue Refunding Bonds, Series 2007
(Casa De Las Campanas, Inc.)

Consisting of:

$28,700,000
Series 2007A (Tax-Exempt)
Maturity: September 1, 2037
Mode Upon Conversion: Daily
Rate Determination Date: each Business Day
CUSIP NO: 00037CJM3

$16,945,000
Series 2007B (Taxable)
Maturity: September 1, 2037
Mode Upon Conversion: Weekly
Rate Determination Date: Wednesday (or the preceding Business Day if Wednesday is not a Business Day)
Initial Interest Period: Conversion Date to and including February 13, 2008
CUSIP NO: 00037CJN1

Remarketing Price: 100%
Conversion Date: February 7, 2008
Principal Amount of Remarketing: $45,645,000
Remarketing Agent: J.P. Morgan Securities Inc.
Initial Interest Payment Date: March 3, 2008

No dealer, broker, salesman or other person has been authorized by the ABAG Finance Authority for Nonprofit Corporations (the "Authority"), Casa De Las Campanas, Inc. (the "Corporation"), Radian Asset Assurance Inc. (the "Insurer"), JPMorgan Chase Bank, National Association (the "Letter of Credit Issuer") or J.P. Morgan Securities Inc. (the "Remarketing Agent") to give any information or to make any representations, other than those contained in this Reoffering Circular, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Reoffering Circular nor any sale hereunder implies that there has been no change in the matters described herein since the date hereof. This Reoffering Circular does not constitute an offer to sell or the solicitation of any offer to buy, nor shall there be any sale of the Series 2007 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Corporation, the Insurer, the Letter of Credit Issuer, The Depository Trust Company ("DTC") and other sources which are believed to be reliable.

The Series 2007 Bonds have not been registered under the Securities Act of 1933, as amended, or any state securities laws and have not been listed on a securities exchange and neither the Master Indenture (as hereinafter defined) nor the Bond Indenture (as hereinafter defined) have been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such Acts. The registration or qualification of the Series 2007 Bonds in accordance with applicable provisions of securities laws of the states in which the Series 2007 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Series 2007 Bonds or the accuracy or completeness of this Reoffering Circular. Any representation to the contrary may be a criminal offense.

The CUSIP numbers are included on the cover page of this Reoffering Circular for convenience of the holders and potential holders of the Series 2007 Bonds. No assurance can be given that the CUSIP number for a series of the Series 2007 Bonds will remain the same after the date of remarketing of the Series 2007 Bonds.

Certain statements included or incorporated by reference in this Reoffering Circular constitute "forward-looking statements." Such statements generally are identifiable by the terminology used, such as "plan," "expect," "estimate," "budget" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involves known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The Corporation does not plan to issue any updates or revisions to those forward-looking statements if or when changes to its expectations or events, conditions or circumstances in which such statements are based occur.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING RADIAN ASSET ASSURANCE INC. CONTAINED UNDER THE CAPTION "FINANCIAL GUARANTY INSURANCE" AND THE SUBCAPTIONS "FINANCIAL GUARANTY INSURANCE POLICY" AND "DESCRIPTION OF RADIAN ASSET ASSURANCE INC." HEREIN, NONE OF THE INFORMATION IN THIS REOFFERING CIRCULAR 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 SERIES 2007 BONDS; OR (III) THE TAX STATUS OF THE INTEREST ON THE SERIES 2007A BONDS.

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REOFFERING CIRCULAR
relating to
$45,645,000
ABAG Finance Authority for Nonprofit Corporations
Variable Rate Revenue Refunding Bonds, Series 2007
(Casa De Las Campanas, Inc.)
Consisting of:

$28,700,000	**$16,945,000**
Series 2007A (Tax-Exempt)	**Series 2007B (Taxable)**
Maturity: September 1, 2037	**Maturity: September 1, 2037**
CUSIP NO: 00037CJM3	**CUSIP NO: 00037CJN1**

INTRODUCTION

This Reoffering Circular (the "Reoffering Circular") supplements the Official Statement dated April 25, 2007 (the "Original Official Statement") (a copy of which is attached hereto as APPENDIX E), relating to the ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds, Series 2007 (Casa De Las Campanas, Inc.) (the "Series 2007 Bonds") consisting of the ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds, Series 2007A (Casa De Las Campanas, Inc.) (the "Series 2007A Bonds") and the ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds, Series 2007B (Casa De Las Campanas, Inc.) (the "Series 2007B Bonds"). The Series 2007 Bonds originally were issued by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") on May 2, 2007 pursuant to a Bond Trust Indenture dated as of May 1, 2007 (the "Original Bond Indenture") between the Authority and U.S. Bank National Association, as bond trustee (the "Bond Trustee"). The Original Bond Indenture will be amended and restated pursuant to the terms of the Amended and Restated Bond Indenture dated as of February 1, 2008 between the Authority and the Bond Trustee (the "Bond Indenture"). Capitalized terms not defined herein shall have the meaning attributed to such terms in APPENDIX C—"SUMMARY OF PRINCIPAL DOCUMENTS — Definitions of Certain Terms."

The Corporation is a California nonprofit public benefit corporation and is exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). The Corporation was originally organized in 1989 to provide multi-level housing, non-acute health care and related services to the elderly. The Corporation owns a 412-unit continuing care retirement facility, which includes an 18-unit assisted living unit and a 27-bed dementia unit, and an adjacent 99-bed skilled nursing facility located in the Rancho Bernardo area of northern San Diego County, 25 miles from downtown San Diego, California. More detailed information concerning the Corporation and its operations and financial condition is set forth in APPENDIX A. The consolidated audited financial statements of Casa de las Campanas, Inc. for the fiscal years ended July 31, 2006 and 2007 are set forth in APPENDIX B.

Pursuant to the provisions of the Original Bond Indenture, the Corporation has provided notice of its intention to terminate the Liquidity Facility and deliver to the Bond Trustee the Letters of Credit (as defined below). On the Conversion Date, the Corporation will cause to be delivered to the Bond Trustee a separate irrevocable transferable direct pay letter of credit (each a "Letter of Credit" and together, the "Letters of Credit") to be issued by JPMorgan Chase Bank, National Association (the "Letter of Credit Issuer") to secure each series of the Series 2007 Bonds, and only such series of Series 2007 Bonds. The Bond Trustee is instructed to draw upon each Letter of Credit an amount sufficient to pay (i) principal of (but not premium on), and interest on, the related series of Series 2007 Bonds in the Daily Mode or Weekly Mode, when due, whether upon maturity, redemption or acceleration, and (ii) the Purchase Price

of Tendered Bonds, to the extent such Purchase Price is not paid from the proceeds of remarketing such Tendered Bonds. Each Letter of Credit will expire (subject to earlier termination) on February 7, 2009, but may be extended or replaced as described herein and as provided in the Bond Indenture and the Letter of Credit Agreement (as defined below). The Letters of Credit will be issued pursuant to the terms of a Letter of Credit and Reimbursement Agreement dated as of February 1, 2008 (the "Letter of Credit Agreement") by and between the Corporation and the Letter of Credit Issuer.

Payment for principal of and interest on the Series 2007 Bonds are also insured in accordance with the terms of two separate financial guaranty insurance policies (collectively, the "Policy") that were issued simultaneously with the delivery of the Series 2007 Bonds on May 1, 2007 by Radian Asset Assurance Inc. (the "Insurer"). Please see APPENDIX E to the Original Official Statement for a specimen of the Policy. See the information under the caption "FINANCIAL GUARANTY INSURANCE" for additional information regarding the Policy and the Insurer. Each Letter of Credit will be the primary security with respect to its corresponding series of the Series 2007 Bonds, and recourse would be made against the Insurer for payment under the Policy only in the event the Letter of Credit Issuer fails to honor a draw request under the Letter of Credit for such series for a scheduled payment of principal or interest on such series of the Series 2007 Bonds and the Corporation fails to make a payment of principal or interest on the related Series 2007 Obligation.

On the Conversion Date, the Series 2007A Bonds will convert to the Daily Mode and interest on the Series 2007A Bonds will accrue at a Daily Rate determined by J.P. Morgan Securities Inc., in its capacity as remarketing agent (the "Remarketing Agent"). Thereafter, a new interest rate for Series 2007A Bonds will be determined by the Remarketing Agent on each Business Day. The Series 2007B Bonds will continue in Weekly Mode for the period from and including the Conversion Date to and including February 13, 2008, and interest on the Series 2007B Bonds will accrue at a Weekly Rate determined by the Remarketing Agent on the Conversion Date. Thereafter, a new interest rate for Series 2007B Bonds will be determined by the Remarketing Agent on Wednesday of each week (or the preceding Business Day if Wednesday is not a Business Day) and generally be effective from Thursday to and including the immediately succeeding Wednesday. While in the Daily Mode or the Weekly Mode, interest shall be payable monthly, on the first Business Day of each month, commencing March 3, 2008, and on the maturity dates of the Series 2007 Bonds. So long as The Depository Trust Company ("DTC") or its nominee, Cede & Co., is the registered owner of the Series 2007 Bonds, such payments will be made directly to DTC or such nominee.

As described herein under the caption "THE SERIES 2007 BONDS – Tenders – *Optional Tenders of Series 2007 Bonds in the Daily Mode or the Weekly Mode*," the holder of a Series 2007 Bond operating in a Daily Mode or a Weekly Mode will have the right to tender such holder's Series 2007 Bonds for purchase from and to the extent of the sources of funds described herein at a purchase price equal to 100% of principal amount of such Series 2007 Bond plus accrued interest (if any) (the "Purchase Price"). In addition, holders of the Series 2007 Bonds may be required to tender their Series 2007 Bonds for purchase in certain circumstances described herein under the captions "THE SERIES 2007 BONDS – Tenders – *Mandatory Purchase on Mode Change Date*" and "THE SERIES 2007 BONDS – Tenders – *Mandatory Purchase On Expiration Date, Substitute Liquidity Facility Date, Substitute Letter of Credit Date, Termination Date or Letter of Credit Default Date.*" The Remarketing Agent will use its best efforts to remarket Series 2007 Bonds which have been optionally tendered for purchase or are required to be tendered for purchase pursuant to the provisions of the Bond Indenture ("Tendered Bonds") and will perform certain interest rate-setting functions in connection with the Series 2007 Bonds. The procedures to be followed in connection with tenders of Series 2007 Bonds are described under the caption "THE SERIES 2007 BONDS – Tenders" and, so long as the Series 2007 Bonds are in the book-entry only system, under the caption "BOOK-ENTRY SYSTEM" in the Original Official Statement.

On the Conversion Date, the Corporation will enter into the Master Indenture of Trust dated as of February 1, 2008, as supplemented and amended by the First Supplemental Master Indenture of Trust, dated as of February 1, 2008 (as supplemented and amended, the "Master Indenture"), between the Corporation and U.S. Bank National Association, as master trustee (the "Master Trustee"). The Corporation will issue its Obligation No. 1 ("Obligation No. 1") under the Master Indenture to evidence its obligation to make payments required pursuant to the Loan Agreement (as hereinafter defined) relating to the loan of the proceeds of the Series 2007 Bonds by the Authority to the Corporation. For information relating to the security and sources of payment for the Series 2007 Bonds, see "SECURITY FOR THE SERIES 2007 BONDS" in the Original Official Statement and "AMENDED AND RESTATED DOCUMENTS" and "THE MASTER INDENTURE AND OBLIGATION NO. 1" in this Reoffering Circular.

For a discussion of certain of the risks associated with purchasing the Series 2007 Bonds, see the information under the caption "BONDHOLDERS' RISKS" herein and under the caption "BONDHOLDERS' RISKS" in the Original Official Statement.

AMENDED AND RESTATED DOCUMENTS

Bond Indenture. As described above, the Original Bond Indenture will be amended and restated simultaneous with the issuance and delivery of the Letters of Credit by the execution and delivery of the Bond Indenture. For a summary of the Bond Indenture, see APPENDIX C—"SUMMARY OF PRINCIPAL DOCUMENTS — Amended and Restated Bond Indenture." By purchasing the Series 2007 Bonds, a purchaser will be deemed to have consented to the execution and delivery of the Bond Indenture.

Loan Agreement. The Authority loaned the proceeds of the Series 2007 Bonds to the Corporation pursuant to the terms of a Loan Agreement dated May 1, 2007 (the "Original Loan Agreement"). The Original Loan Agreement will be amended and restated simultaneous with the issuance and delivery of the Letters of Credit by the execution and delivery of the Amended and Restated Loan Agreement dated as of February 1, 2008 between the Authority and the Corporation (the "Loan Agreement"). For a summary of the Loan Agreement, see APPENDIX C—"SUMMARY OF PRINCIPAL DOCUMENTS — The Amended and Restated Loan Agreement." By purchasing the Series 2007 Bonds, a purchaser will be deemed to have consented to the execution and delivery of the Loan Agreement.

Deed of Trust. As security for the obligations of the Corporation under the Loan Agreement, the Corporation granted in favor of the Bond Trustee and the holder of certain other parity debt a first mortgage lien on the Corporation's facilities, subject to permitted liens, pursuant to the Deed of Trust with Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of May 1, 2007 (the "Original Deed of Trust"). The Original Deed of Trust will be amended and restated effective as of the Conversion Date by the execution and delivery of the Amended and Restated Deed of Trust with Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of February 1, 2008 (as amended and restated, the "Restated Deed of Trust" or the "Deed of Trust"), by the Corporation in favor of U.S. Bank National Association, in its capacity as Master Trustee. For a summary of the Deed of Trust, see APPENDIX C –"SUMMARY OF PRINCIPAL DOCUMENTS–The Deed of Trust." By purchasing the Series 2007 Bonds, a purchaser will be deemed to have consented to the execution and delivery of the Deed of Trust.

THE MASTER INDENTURE AND OBLIGATION NO. 1

On the Conversion Date, the Corporation will enter into the Master Indenture and issue Obligation No. 1 under the Master Indenture and pursuant to the First Supplement to evidence its

obligations to make payments required under the Loan Agreement in amounts sufficient to pay debt service on the Series 2007 Bonds.

Obligations. Under the Master Indenture, the Corporation is authorized to incur, pursuant to a supplement to the Master Indenture, Obligations to evidence or secure Indebtedness (or other obligations of the Corporation not constituting Indebtedness).

Other Obligations. Concurrently with the issuance of Obligation No. 1, the Corporation will issue: Obligation No. 2 to secure the Corporation's obligations to make payments required under the Letter of Credit Agreement, Obligation No. 3 to secure the Corporation's obligations to make certain scheduled payments required under the interest rate swap agreements with Morgan Stanley Capital Services Inc. and Obligation No. 4 to secure the Corporation's obligations to make certain scheduled payments required under the interest rate swap agreements with KBC Bank N.V. Obligation No. 3 and Obligation No. 4 are related to interest rate swap agreements entered into in connection with the original issuance of the Series 2007 Bonds (see "THE PLAN OF FINANCE – Interest Rate Swap Transaction" in the Original Official Statement).

Lien on Gross Revenues; Deed of Trust. Obligations issued under the Master Indenture, including Obligation No. 1, will be equally and ratably secured by (i) a security interest in the present and future accounts, general intangibles and Gross Revenues to the extent owned by the Corporation, and all of the proceeds of all of the foregoing, and (ii) a first lien on the Corporation's Facilities granted by the Deed of Trust.

Covenants of the Master Indenture. The Master Indenture permits the Corporation to incur secured or unsecured Indebtedness (including but not limited to additional Obligations), enter into Guarantees and sell, lease or otherwise dispose of Property of the Corporation, all upon the terms and conditions specified in the Master Indenture. See APPENDIX C–"SUMMARY OF PRINCIPAL DOCUMENTS – Master Indenture – Covenants of the Members - Limitations on Additional Indebtedness"; " – Sale, Lease or Other Disposition of Property."

THE SERIES 2007 BONDS

General

The Series 2007 Bonds were issued on May 2, 2007 in the aggregate principal amount of $45,645,000, all of which is currently outstanding, consisting of the $28,700,000 Series 2007A (Tax-Exempt) Bonds and the $16,945,000 Series 2007B (Taxable) Bonds. On the Conversion Date, the Series 2007A Bonds will operate in the Daily Mode and the Series 2007B Bonds will operate in the Weekly Mode unless and until the Corporation, upon compliance with the conditions set forth in the Bond Indenture, converts one or both series of the Series 2007 Bonds to another authorized Mode.

This Reoffering Circular summarizes certain terms of the Series 2007 Bonds only in the Daily Mode and the Weekly Mode. If either series of the Series 2007 Bonds is changed to a different Mode, such Series 2007 Bonds will be subject to mandatory tender and purchase, and, at that time, it is expected that another supplement to the Original Official Statement will be prepared. All, and not less than all, of each series of the Series 2007 Bonds will operate in one Mode at any given time.

Each series of the Series 2007 Bonds will mature on the respective maturity date set forth on the cover page of this Reoffering Circular. Each series of the Series 2007 Bonds was issued and is available only in fully registered form in Authorized Denominations. "Authorized Denominations" means, during any Weekly Mode or Daily Mode, $100,000 and any integral multiple of $5,000 in excess thereof.

Each series of the Series 2007 Bonds is registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository (the "Securities Depository") for the Series 2007 Bonds. Individual purchases of interests in the Series 2007 Bonds will be made in book-entry form only, in Authorized Denominations. Purchasers of such interests will not receive certificates representing their interest in a series of the Series 2007 Bonds. For a description of the method of payment of principal, premium, if any, and interest on the Series 2007 Bonds and matters pertaining to transfers and exchanges while in the book-entry only system, see the information in APPENDIX G - "BOOK-ENTRY ONLY SYSTEM" in the Original Official Statement.

Interest on the Series 2007 Bonds in the Weekly Mode and the Daily Mode will be paid on each Interest Payment Date, and will be computed on the basis of a year of 365 or 366 days, as applicable, for the actual number of days elapsed. While the Series 2007 Bonds are in the Weekly Mode or the Daily Mode, "Interest Payment Date" means (i) the first Business Day of each calendar month, (ii) any Mode Change Date, (iii) the Maturity Date and (iv) each Mandatory Purchase Date.

For each Series 2007 Bond, interest is payable on each Interest Payment Date for the period commencing on the last Interest Payment Date to which interest has been paid on such Series 2007 Bond to, but not including, the Interest Payment Date on which interest is to be paid.

Weekly Mode and Daily Mode

On and after the Conversion Date, the Series 2007A Bonds will operate in the Daily Mode and bear interest at the Daily Rate established by the Remarketing Agent and the Series 2007B Bonds will operate in the Weekly Mode and bear interest at the Weekly Rate established by the Remarketing Agent. At any given time, a series of the Series 2007 Bonds may operate in one of seven Modes. All, and not less than all, of a series of the Series 2007 Bonds will operate in one Mode at any given time. Subsequent to each change in Mode (other than a change to the Indexed Mode or the Fixed Rate Mode), such series of the Series 2007 Bonds may again be changed to a different Mode.

Weekly Mode. For Series 2007 Bonds operating in a Weekly Mode, the Remarketing Agent will determine the interest rate for the Series 2007 Bonds on Wednesday of each week or, if Wednesday is not a Business Day, the next preceding Business Day (the "Rate Determination Date") as the minimum rate of interest which, in the judgment of the Remarketing Agent under then-existing market conditions, would result in the sale of such series of Series 2007 Bonds, on the first day of the Interest Period immediately succeeding the Rate Determination Date, at a price equal to the Purchase Price.

During the Weekly Mode, the Remarketing Agent will establish the Weekly Rate by 4:00 p.m., Eastern time, on each Rate Determination Date. The Weekly Rate will be in effect (1) initially, from and including the Conversion Date to and including February 13, 2008, and (2) thereafter, from and including each Thursday to and including the following Wednesday. Notice of the Weekly Rate shall be available (i) after 4:00 p.m. Eastern time on the Rate Determination Date by telephone to any requesting Bondholder who contacts the Bond Trustee. and (ii) given by the Remarketing Agent to the Bond Trustee not later than 2:00 p.m., Eastern time, on the Business Day after the Rate Determination Date

Daily Mode. For Series 2007 Bonds operating in a Daily Mode, the Remarketing Agent will determine the interest rate for the Series 2007 Bonds on each Business Day as the minimum rate of interest, in the judgment of the Remarketing Agent under then-existing market conditions, would result in the sale of such series of Series 2007 Bonds on such Business Day, at a price equal to the Purchase Price.

During the Daily Mode, the Remarketing Agent will give the Bond Trustee notice of the Daily Rate by 9:30 a.m., Eastern time, on such Business Day. The Daily Rate for any day during the Daily

Mode which is not a Business Day will be the Daily Rate established on the immediately preceding Business Day. The Bond Trustee will make the Daily Rate available by telephone to any requesting Bondholder who contacts the Bond Trustee on any Business Day between 4:00 p.m. and 5:00 p.m., Eastern time.

If the Remarketing Agent fails for any reason to determine or notify the Bond Trustee of the interest rate(s) or Interest Periods with respect to a series of the Series 2007 Bonds, the interest rate shall be equal to the SIFMA Municipal Swap Index (as defined in the Bond Indenture) until the Remarketing Agent next determines the interest rate.

In no event shall the Series 2007 Bonds bear interest at a rate higher than the lesser of (i) 12% per annum, or (ii) the maximum interest rate permitted by law, or (iii) the Interest Coverage Rate.

Changes in Modes

The Corporation may direct that a series of the Series 2007 Bonds be converted to another Mode upon satisfaction of certain conditions set forth in the Indenture.

Changes to Modes Other Than the Fixed Rate Mode. The Corporation may effect a change in Mode with respect to the Series 2007 Bonds to another Mode (other than the Fixed Rate Mode) by giving, no later than the 15th day preceding the proposed Mode Change Date, Immediate Notice to the Authority, the Bond Trustee, the Tender Agent, the Remarketing Agent (if any), the Auction Agent (if any), the Broker-Dealer, the Liquidity Facility Provider (if any), the Letter of Credit Issuer and the Bond Insurer, specifying the Series 2007 Bonds to which such notice relates and its intention to effect a change in the Mode from the Mode then in effect (the "Current Mode") to another Mode (the "New Mode") specified in such written notice, if the change is to a Term Rate Mode, the length of the initial Interest Period, and if the change is to an Auction Mode, the length of the initial Auction Period. Notice of the Mode Change Date shall be given to the holders as described below under the caption "THE SERIES 2007 BONDS – Tenders – *Mandatory Purchase on Mode Change Date*" in the Original Official Statement.

In the event that any of the conditions precedent to such change in Mode required under the Bond Indenture have not been satisfied by the Mode Change Date for a series of Series 2007 Bonds, the New Mode shall not take effect for such Series 2007 Bonds proposed to be converted to a New Mode and such Series 2007 Bonds shall not be purchased on the proposed Mode Change Date. If the change was from the Daily Mode or the Weekly Mode, such Series 2007 Bonds shall be automatically changed to a Daily Mode.

Changes to Fixed Rate Mode. At the option of the Authority and upon the direction of the Corporation, the Corporation may effect a change in Mode with respect to any Series 2007 Bonds not in the Indexed Mode to the Fixed Rate Mode by giving, not less than 30 days (or such shorter time as may be agreed to by the Bond Trustee, the Remarketing Agent (if any) and the Auction Agent (if any)) before the proposed Mode Change Date, written notice to the Bond Trustee, the Authority, the Tender Agent, the Auction Agent (if any), the Broker-Dealers (if any), the Liquidity Facility Provider (if any), the Letter of Credit Issuer (if any), the Remarketing Agent (if any), the Bond Insurer and each Rating Agency then rating such Series 2007 Bonds proposed to be changed to the New Mode stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed Mode Change Date. Such notice shall be accompanied by an approval in writing of the change to the Fixed Rate Mode by the Authority and the Bond Insurer.

If any of the conditions precedent to such change in Mode required under the Bond Indenture have not been satisfied on or prior to the Mode Change Date, the Fixed Rate Mode shall not become

effective and all such Series 2007 Bonds proposed to be changed to the Fixed Rate Mode shall be converted to a Daily Mode.

Upon a Mode Change Date with respect to a series of the Series 2007 Bonds, each Bondholder will be required to tender Series 2007 Bonds of such series for mandatory purchase. See "Tenders - *Mandatory Purchase on Mode Change Date*" below.

Tenders

The following discussion under this caption is subject in its entirety to the provisions described in APPENDIX G - "BOOK-ENTRY SYSTEM" in the Original Official Statement while the Series 2007 Bonds are in the book-entry only system, and the provisions of the Bond Indenture described under this caption will only be applicable (i) to DTC (or Cede & Co. as the registered holder of the Series 2007 Bonds) while Series 2007 Bonds are in the book-entry only system and (ii) to owners of Series 2007 Bonds not in the book-entry only system.

Optional Tenders of Series 2007 Bonds in the Daily Mode or the Weekly Mode. The holders of Eligible Bonds (as hereinafter defined) in the Daily Mode or the Weekly Mode may elect to have their Series 2007 Bonds (or portions of those Series 2007 Bonds in amount equal to integral multiples of the lowest Authorized Denomination) purchased on any Business Day at a price equal to the Purchase Price: (i) in the case of Series 2007 Bonds in the Daily Mode, upon delivery of an irrevocable telephonic notice of tender to the Remarketing Agent, the Bond Trustee and the Tender Agent not later than 11:00 a.m. Eastern time on the Purchase Date specified by the holder; and (ii) in the case of Series 2007 Bonds in the Weekly Mode, upon delivery of an irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent, the Bond Trustee and the Tender Agent, promptly confirmed in writing to the Tender Agent, not later than 4:00 p.m. Eastern time on a Business Day not less than five (5) days before the Purchase Date specified by the holder in such notice. "Eligible Bonds" are any Series 2007 Bonds other than (i) Liquidity Facility Bonds, (ii) Bank Bonds, (iii) Series 2007 Bonds owned by, for the account of, or on behalf of, the Authority or the Corporation or any affiliate of the Corporation, or (iv) Series 2007 Bonds not covered by a Liquidity Facility.

Such notices of tender shall state the CUSIP number, the series of Series 2007 Bond, Bond number (if the series of the Series 2007 Bond is not registered in the name of the Securities Depository) and the principal amount of the portion of such Series 2007 Bond to be optionally tendered, and the Purchase Date on which such portion is to be purchased.

Mandatory Purchase on Mode Change Date. Series 2007 Bonds to be changed from one Mode to another (other than a change to the Fixed Rate Mode) are subject to mandatory purchase on the Mode Change Date at the Purchase Price. The Tender Agent shall give Immediate Notice of such mandatory purchase to the holders of such Series 2007 Bonds no less than fifteen (15) days prior to the Mandatory Purchase Date. The notice shall state the Mandatory Purchase Date, the Purchase Price and that interest on such Series 2007 Bonds shall cease to accrue from and after the Mandatory Purchase Date. Series 2007 Bonds to be changed to the Fixed Rate Mode are subject to mandatory purchase on the Mode Change Date at the Purchase Price. Not less than the 15th day next preceding the Mode Change Date, the Tender Agent shall mail, in the name of the Authority, a notice of such proposed change to the holders of the Series 2007 Bonds proposed to be changed to the Fixed Rate stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date and that such holder is required to tender such holder's Series 2007 Bonds proposed to be changed to the Fixed Rate for purchase on such proposed Mode Change Date. The failure to give any notice with respect to any Series 2007 Bond shall not affect the validity of the mandatory purchase of any other Series 2007 Bond with respect to which notice was so

given. Any notice sent will be conclusively presumed to have been given, whether or not actually received by any holder.

Mandatory Purchase on Expiration Date, Substitute Liquidity Facility Date, Substitute Letter of Credit Date, Termination Date or Letter of Credit Default Date. On each Substitute Liquidity Facility Date or Substitute Letter of Credit Date applicable to a Series 2007 Bond, and on the second Business Day preceding each Expiration Date applicable to a Series 2007 Bond, if such Bond is an Eligible Bond it shall be subject to mandatory purchase on such date at the Purchase Price; provided, however, that such Series 2007 Bonds shall not be subject to mandatory purchase on the Substitute Liquidity Facility Date or Substitute Letter of Credit Date or the second Business Day preceding each Expiration Date if (1) on or prior to the 15th day prior to such Expiration Date, Substitute Liquidity Facility Date or Substitute Letter of Credit Date, as the case may be, the Corporation has furnished to the Bond Trustee an agreement to extend the applicable Liquidity Facility or Letter of Credit, or (2) on or prior to the 15th day prior to such Expiration Date, Substitute Liquidity Facility Date or Substitute Letter of Credit Date, the Bond Trustee receives written confirmation from each Rating Agency then rating such Series 2007 Bonds to the effect that immediately following such Substitute Liquidity Facility Date, Expiration Date or Substitute Letter of Credit Date, there will be no withdrawal or reduction of the long-term and short-term rating then in effect with respect to such Series 2007 Bonds. The Bond Trustee shall give notice of such substitution or expiration by mail to the holders no less than 10 days prior to such substitution or expiration. Such notice shall also (i) specify, if applicable, that the Corporation will be the only party obligated to purchase Eligible Bonds upon the Expiration Date and (ii) state, if applicable, the name of the provider of the proposed Substitute Liquidity Facility or the Substitute Letter of Credit and the terms thereof. The Tender Agent shall give notice of such mandatory purchase by mail to the holders of the Bonds involved no less than 10 days prior to such Mandatory Purchase Date. The notice shall state the Mandatory Purchase Date, the Purchase Price and that interest on such Series 2007 Bonds shall cease to accrue from and after the Mandatory Purchase Date. Such notice shall also (i) specify, if applicable, that the Corporation will be the only party obligated to purchase Eligible Bonds upon the Expiration Date and (ii) state, if applicable, the name of the provider of the proposed Substitute Liquidity Facility or the Substitute Letter of Credit and the terms thereof. The failure to give such notice with respect to any Series 2007 Bond shall not affect the validity of the mandatory purchase of any other Series 2007 Bond with respect to which notice was so given. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any holder.

On the second Business Day preceding each Termination Date applicable to a Series 2007 Bond, if such Series 2007 Bond is an Eligible Bond it shall be subject to mandatory purchase on such date at the principal amount thereof, plus accrued interest, if any, with respect thereto to the Termination Date. The Tender Agent shall give notice of such mandatory purchase by mail to the holders of such Bonds no later than the Business Day after receipt of notice of termination from the Liquidity Facility Provider or the Letter of Credit Issuer. The notice shall state the Mandatory Purchase Date, the Purchase Price and that interest on such Series 2007 Bonds shall cease to accrue from and after the Mandatory Purchase Date. Such notice shall also state the name of the provider of the proposed Substitute Liquidity Facility or Substitute Letter of Credit and the terms thereof. The failure to give such notice with respect to any Series 2007 Bond shall not affect the validity of the mandatory purchase of any other Series 2007 Bond with respect to which notice was so given. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any holder.

On each Letter of Credit Default Date, the applicable series of the Series 2007 Bonds shall be subject to mandatory purchase and the Bond Trustee shall give notice of such mandatory purchase to the holders of the Series 2007 Bonds involved no later than one Business Day after receipt by the Bond Trustee of notice from the Letter of Credit Issuer that the Letter of Credit Issuer is not reinstating the Letter of Credit following a draw thereunder or that an event of default has occurred and is continuing

under the Letter of Credit. Such notice shall state the Mandatory Purchase Date (which shall be no later than 5 days after receipt by the Bond Trustee of a notice from the Letter of Credit Issuer and if such fifth day is not a Business Day, shall be on or before the fourth day after such receipt), the Purchase Price and that interest on such Series 2007 Bonds shall cease to accrue from and after the Mandatory Purchase Date. The failure to give such notice with respect to any Series 2007 Bond shall not affect the validity of the mandatory purchase of any other Series 2007 Bond with respect to which such notice was given. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any holder.

The Tender Agent may assume that a Series 2007 Bond is an Eligible Bond unless it has actual knowledge that such Series 2007 Bond is not an Eligible Bond.

Payment of Purchase Price. At or before 2:30 p.m. Eastern time on the Purchase Date or Mandatory Purchase Date and upon receipt by the Tender Agent of the aggregate Purchase Price of the tendered Bonds, the Tender Agent shall pay the Purchase Price of such Series 2007 Bonds to the holders by bank wire transfer in immediately available funds.

Inadequate Funds for Tenders. If the funds available for purchases of Eligible Bonds are inadequate for the purchase of all Series 2007 Bonds tendered on any Purchase Date or Mandatory Purchase Date, no purchase shall be consummated and the Tender Agent shall, (1) return all tendered Bonds to the holders thereof, (2) return all moneys deposited in the Remarketing Proceeds Account to the Remarketing Agent for return to the Persons providing such moneys and (3) return all moneys deposited by the Liquidity Facility Provider to the Liquidity Facility Provider and all moneys deposited in the Letter of Credit Deposit Account to the Letter of Credit Issuer. Failure of the Authority or the Corporation to pay the Purchase Price of Series 2007 Bonds shall not constitute an Event of Default under the Indenture, Loan Agreement or the Master Indenture, and the Bond Insurer shall not be obligated to pay any such amounts under the Policies.

Delivery of Bonds by Tendering Bondholders; Undelivered Bonds Deemed Purchased. All Series 2007 Bonds to be purchased on any date shall be required to be delivered to the principal office of the Tender Agent at or before 10:00 a.m. Eastern time on such Purchase Date or Mandatory Purchase Date. If the holder of any Series 2007 Bond (or portion thereof) that is subject to purchase fails to deliver such Bond to the Tender Agent for purchase on the Purchase Date or Mandatory Purchase Date, and if the Tender Agent is in receipt of the Purchase Price therefor, such Series 2007 Bond (or portion thereof) shall nevertheless be deemed tendered and purchased on the day fixed for purchase thereof and ownership of such Series 2007 Bond (or portion thereof) shall be transferred to the purchaser thereof as provided under "Delivery of Bonds to Purchasers" below. Any holder who fails to deliver such Series 2007 Bond for purchase shall have no further rights thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of said Series 2007 Bond to the Tender Agent. The Tender Agent shall, as to any tendered Series 2007 Bonds that have not been delivered to it: (1) promptly notify the Remarketing Agent of such nondelivery; and (2) instruct the Bond Trustee to place a stop transfer against an appropriate amount of Series 2007 Bonds of the series and maturity involved registered in the name of such holder(s) on the Bond Register. The Bond Trustee shall place such stop(s) commencing with the lowest serial number Series 2007 Bond registered in the name of such holder(s) until stop transfers have been placed against an appropriate amount of Series 2007 Bonds of the series and maturity involved until the appropriate tendered Series 2007 Bonds are delivered to the Tender Agent who shall deliver such Series 2007 Bonds to the Bond Trustee. Upon such delivery, the Bond Trustee shall make any necessary adjustments to the bond registration book.

Redemption

Mandatory Redemption. For information on mandatory redemption with respect to the Series 2007 Bonds, see the information under the caption "THE SERIES 2007 BONDS – Redemption – *Mandatory Sinking Fund Redemption*" in the Original Official Statement.

Extraordinary Redemption. For information on extraordinary optional redemption with respect to the Series 2007 Bonds, see the information under the caption "THE SERIES 2007 BONDS – Redemption–*Extraordinary Redemption*" in the Original Official Statement.

Optional Redemption. No optional redemption shall be permitted while a Letter of Credit is in effect and on deposit with the Bond Trustee (x) without the prior consent of the Letter of Credit Issuer if the Series 2007 Bonds are to be redeemed with moneys drawn on the Letter of Credit or (y) unless Eligible Moneys are on deposit with the Bond Trustee. If the Letter of Credit Issuer gives its consent and the Series 2007 Bonds are to be so redeemed with moneys drawn under the Letter of Credit, the Bond Trustee shall take such actions as are necessary to (a) draw on each day Bonds are to be optionally redeemed, sufficient amounts under the Letter of Credit to pay principal of and interest on the Bonds to be so redeemed, which moneys shall be deposited in the LOC Redemption Account and (b) transfer to the Letter of Credit Issuer on the Redemption Date amounts on deposit in the Redemption Fund (other than the LOC Redemption Account maintained therein), but not in excess of the amount equal to the principal amount of Bonds to be so redeemed together with the interest accrued on such Series 2007 Bonds to be redeemed to the Redemption Date, as repayment to the Letter of Credit Issuer of amounts drawn by the Bond Trustee under the Letter of Credit for such redemption.

General Redemption Provisions; Notice of Redemption. No redemption of less than all of a series of the Series 2007 Bonds at the time outstanding will be made unless the aggregate principal amount of the Series 2007 Bonds to be redeemed is in an Authorized Denomination for such Series 2007 Bonds.

In lieu of optionally redeeming Series 2007 Bonds, the Bond Trustee may, at the request of the Corporation and upon the prior written consent of the Insurer, use such funds otherwise available under the Bond Indenture for redemption of Series 2007 Bonds to purchase Series 2007 Bonds identified by the Corporation in the open market for cancellation at a price specified by the Corporation not exceeding the redemption price then applicable. It is understood that in the case of any such redemption or purchase of Series 2007 Bonds, the Authority shall receive credit against its required Bond Sinking Fund deposits in the same manner as would be applicable if such Series 2007 Bonds were optionally redeemed.

Notice of a call for any redemption shall be given by mailing a copy of such notice of redemption by first class mail, postage prepaid not less than 15 or more than 60 days prior to the Redemption Date to the registered owners of the Series 2007 Bonds to be redeemed to the address shown on the Bond Register to the Authority, the Liquidity Facility Provider, the Letter of Credit Issuer, the Bond Insurer, the Auction Agent (if any) and the Ratings Agencies then rating the Series 2007 Bonds, provided, however, that failure to give such notice by mailing or to provide such notice to any registered securities depository or a defect in the notice or the mailing as to any Series 2007 Bond will not affect the validity of any proceedings for redemption as to any other Series 2007 Bond with respect to which notice was properly given to the holder thereof. Except for a mandatory Bond Sinking Fund redemption as described under the caption "THE SERIES 2007 BONDS – Redemption – *Mandatory Sinking Fund Redemption*" in the Original Official Statement, prior to the date that the redemption notice is first mailed as aforesaid, (a) funds shall be placed with the Bond Trustee to pay the principal of such Series 2007 Bonds (which funds shall be Eligible Moneys if such Series 2007 Bonds bear interest at the Daily Rate or the Weekly Rate), the accrued and unpaid interest thereon to the Redemption Date and the premium, if any, thereon, or (b) such notice of redemption shall state that any redemption is conditional on such funds being deposited

with the Bond Trustee on the Redemption Date and that failure to make such a deposit shall not constitute an event of default under the Indenture.

Failure to give notice in the manner prescribed with respect to any Series 2007 Bond, or any defect in such notice, will not affect the validity of the proceedings for redemption for any Series 2007 Bond with respect to which notice was properly given. Upon the happening of the above conditions and if sufficient moneys are on deposit with the Bond Trustee on the applicable redemption date to redeem the Series 2007 Bonds to be redeemed and to pay interest due thereon and premium, if any, the Series 2007 Bonds thus called will not after the applicable redemption date bear interest, be protected by the Bond Indenture or be deemed to be outstanding under the provisions of the Bond Indenture.

If any Series 2007 Bond is transferred or exchanged on the Bond Register by the Bond Registrar after notice has been given calling such Series 2007 Bond for redemption, the Bond Registrar will attach a copy of such notice to the Series 2007 Bond issued in connection with such transfer.

While the Series 2007 Bonds are subject to the Book-Entry System, redemption notices will be sent to Cede & Co.

LETTERS OF CREDIT AND LETTER OF CREDIT AGREEMENT

The following summarizes certain provisions of the Letters of Credit and the Letter of Credit Agreement, to which documents, in their entirety, reference is made for the complete provisions thereof.

Letters of Credit. A Letter of Credit will be issued in an amount equal to the aggregate principal amount of each of the Series 2007A Bonds and the Series 2007B Bonds, plus 52 days of interest thereon at the rate of 12% per annum based on a 365 day year (the "Interest Coverage Rate"). The Bond Trustee, upon compliance with the terms of the Letter of Credit with respect to a series, is authorized and directed to draw up to (a) an amount sufficient (i) to pay principal of such series of the Series 2007 Bonds when due, whether at maturity or upon redemption or acceleration, and (ii) to pay the portion of the Purchase Price of such series of the Series 2007 Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed (a "Liquidity Drawing") equal to the principal amount of such series of the Series 2007 Bonds, plus (b) an amount not to exceed 52 days of accrued interest on the series of the Series 2007 Bonds at the Interest Coverage Rate (i) to pay interest on the Series 2007 Bonds when due and (ii) to pay the portion of the Purchase Price of such series of the Series 2007 Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed, equal to the interest accrued, if any, on the series of the Series 2007 Bonds. *A separate Letter of Credit provides security for each of the Series 2007A Bonds and the Series 2007B Bonds (and only such series) while such series of the Series 2007 Bonds are in the Daily Mode or the Weekly Mode.*

The amount available to be drawn under the Letter of Credit will be reduced to the extent of any drawing thereunder, subject to reinstatement as described below. With respect to a drawing by the Bond Trustee solely to pay interest on a series of the Series 2007 Bonds on an Interest Payment Date, the amount available under the applicable Letter of Credit will be automatically reinstated effective the seventh (7th) calendar day from the date of payment by the Letter of Credit Issuer of such drawing unless within six calendar days of the date of payment of any interest drawing the Bond Trustee shall have received an event of default notice pursuant to such Letter of Credit. With respect to a Liquidity Drawing, in the event of a remarketing of the Series 2007 Bonds (or portions thereof) previously purchased with the proceeds of a Liquidity Drawing and which have been remarketed, the amount available under the applicable Letter of Credit will be reinstated in an amount equal to the principal amount of the series of the Series 2007 Bonds purchased with the proceeds of such Liquidity Drawing

and which have been remarketed, plus the amount of accrued interest thereon paid with the proceeds of such Liquidity Drawing, upon receipt by the Letter of Credit Issuer (or by the Bond Trustee on behalf of the Letter of Credit Issuer) of the remarketing proceeds equal to the principal amount of such Series 2007 Bonds plus all accrued interest thereon.

Each Letter of Credit will terminate on the earliest of the Letter of Credit Issuer's close of business on (i) the later of (a) February 7, 2009, or, if such day is not a Business Day, the next succeeding Business Day to such day and (b) the last day of any extension of such date pursuant to the Letter of Credit Agreement or, if such day is not a Business Day (as defined in the Letter of Credit Agreement), the next succeeding Business Day to such day; or (ii) the fifth (5th) day following the first date on which all of the outstanding Series 2007 Bonds of that series have been converted to either a "Fixed Rate Bond" or an "Unenhanced Bond"; or (iii) upon the Letter of Credit Issuer's receipt of a notice of termination pursuant to such Letter of Credit; or (iv) the eighteenth (18th) day after the Bond Trustee's receipt of written notice from the Letter of Credit Issuer specifying the occurrence of an "event of default" under the Letter of Credit Agreement; or (v) the date on which an acceleration drawing is honored by the Letter of Credit Issuer.

Letter of Credit Agreement. The Letter of Credit Issuer may, by notice to the Bond Trustee, declare that an "event of default" has occurred under the Letter of Credit Agreement and deliver a notice to the Bond Trustee, thereby causing a mandatory tender on the Series 2007 Bonds or an acceleration of the Series 2007 Bonds (with the consent of the Insurer) and, in each case, the Letters of Credit to be drawn upon and to expire as provided therein. Furthermore, the Letter of Credit Issuer shall have the rights and remedies available to it under the Credit Documents, the Bond Documents and as a holder of an Obligation under the Master Indenture, and such other rights as may be available to it pursuant to law or equity.

"Events of Default" under the Letter of Credit Agreement include, without limitation, the following:

(i) The Corporation shall default in the payment of any amount payable under the Letter of Credit Agreement when and as the same shall become due and payable, and continuance of such default for five (5) days after written notice thereof to the Corporation by the Letter of Credit Issuer (a payment made with respect to a Bank Bond by the Bond Insurer under the Policy shall not be considered a payment for these purposes), or election by the Letter of Credit Issuer not to reinstate the amount of any Interest Drawing under a Letter of Credit within seven (7) days of such Interest Drawing because the Letter of Credit Issuer has not been reimbursed; or

(ii) The Insurer shall default in the payment when due of any amount payable under the Policy; or

(iii) Any "event of default" shall have occurred under any of the Related Documents, including, without limitation, the Master Indenture or other agreement between the Corporation and the Letter of Credit Issuer; or

(iii) Any representation or warranty made by the Corporation in the Letter of Credit Agreement, the Bond Documents or any other Credit Document, or any material statement or representation made by or on behalf of the Corporation in any document delivered under the Letter of Credit Agreement, shall prove to have been incorrect in any material respect on the date of issuance of the Letters of Credit, or on the date when made (or deemed made) and shall not be made good within thirty (30) days after written notice thereof to the Corporation; or

(iv) Default by the Corporation in the due observance or performance of certain financial and other covenants set forth in the Letter of Credit Agreement; or

(v) The Corporation shall default in the due and punctual performance of certain covenants, agreements or provisions contained in the Letter of Credit Agreement, and such default shall continue for thirty (30) days after written notice to the Corporation; or

(vi) The Corporation shall (i) become insolvent or admit in writing its inability to pay its debts as they mature or shall declare a moratorium on the payment of its debts, or apply for, consent to or acquiesce in the appointment of a trustee or receiver for itself or any substantial part of its Property, or shall take any action to authorize or effect any of the foregoing; or (ii) in the absence of any such application, consent or acquiescence, a trustee or receiver shall be appointed for it or for a substantial part of its Property or revenues and shall not be discharged within a period of sixty (60) days; or (iii) all, or any substantial part, of its Property shall be condemned, seized or otherwise appropriated, or any bankruptcy, reorganization, debt arrangement or other proceeding under any bankruptcy or insolvency law or any dissolution or liquidation proceeding shall be instituted by or against the Corporation (or any action shall be taken to authorize or effect the institution by it of any of the foregoing) and if instituted against it, shall be consented to or acquiesced in by it, or shall not be dismissed within a period of sixty (60) days; or

(vii) An Event of Default shall occur under any evidence of Indebtedness in an amount in excess of $500,000 issued, assumed or guaranteed by the Corporation or under any indenture, agreement or other instrument under which the same may be issued, and as a result thereof the maturity of the principal of any Indebtedness shall have been or may be accelerated; or

(viii) The occurrence of any "reportable event," as defined in ERISA, which is determined to constitute grounds for termination by the PBGC of any Plan maintained by or on behalf of the Corporation or any of its ERISA Affiliates or for the appointment by the appropriate United States District Court of a trustee to administer such Plan and such reportable event is not corrected and such determination is not revoked within 30 days after notice thereof has been given to the plan administrator or the Corporation or any of its ERISA Affiliates, or the institution of proceedings by the PBGC to terminate any such Plan or to appoint a trustee to administer such Plan; or the appointment of a trustee by the appropriate United States District Court to administer any such Plan; or the Corporation or any of its ERISA Affiliates as employer under a Multi-employer Plan shall have made a complete or partial withdrawal from such Multi-employer Plan; and in the case of any such event the aggregate amount of vested unfunded liabilities under such Plan shall exceed (either singly or in the aggregate in the case of any such liability arising under more than one such Plan) $100,000; or

(x) The Bond Indenture shall terminate or cease to be of full force and effect, other than as a result of any redemption in full of the Series 2007 Bonds or provision for such redemption in full in accordance with the Bond Indenture.

As used under this caption, the following terms have the following meanings:

"Available Amount" means the Stated Amount of a Letter of Credit less the amount of prior reductions pursuant to certain drawings thereunder plus the amount of any reinstatements thereof.

"Bond Documents" means, the Series 2007 Bonds (including Bank Bonds), the Master Indenture, the Bond Indenture, the Loan Agreement, the remarketing agreement relating to the Series 2007 Bonds, the Series 2007 Obligations, the tax certificate relating to the Series 2007 Bonds and all other agreements

or instruments relating to the issuance and sale of and security for the Series 2007 Bonds, other than the Credit Documents.

"Credit Document" means the Letter of Credit Agreement, the Letters of Credit, the Custody Agreement and the Bank Master Note.

"Plan" of any Person means an employee benefit plan (other than a Multi-employer Plan) maintained for employees of such Person or any of its Affiliates and covered by Title IV of ERISA.

"Related Documents" means the Bond Documents, the Credit Documents or any other agreement or instrument relating thereto.

"Stated Amount" means the original stated amount of a Letter of Credit as such amount may be permanently reduced from time to time by the Bond Trustee.

The Corporation will execute and deliver the Casa de las Campanas, Inc. Obligation No. 2 (JPMorgan Chase Bank, National Association) (the "Bank Master Note") to the Letter of Credit Issuer in order to evidence the obligations of the Corporation under the Letter of Credit Agreement. The Bank Master Note will be issued pursuant to the Master Indenture and will be secured on a parity with all existing Obligations and all additional Obligations issued from time to time under the Master Indenture.

JPMORGAN CHASE BANK, NATIONAL ASSOCIATION

The information below relates to and has been obtained from the Letter of Credit Issuer. The delivery of this Reoffering Circular shall not create any implication that there has been no change in the affairs of the Letter of Credit Issuer since the date hereof, or that the information below is correct as of any time subsequent to its date.

JPMorgan Chase Bank, National Association (the "Bank") is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of September 30, 2007, JPMorgan Chase Bank, National Association, had total assets of $1,244.0 billion, total net loans of $456.4 billion, total deposits of $699.0 billion, and total stockholder's equity of $102.9 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income as at September 30, 2007, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation.

Additional information, including the most recent Form 10-K for the year ended December 31, 2006, of JPMorgan Chase & Co., the 2006 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017.

FINANCIAL GUARANTY INSURANCE

The following information has been furnished by the Insurer for use in this Reoffering Circular and does not purport to be complete and is qualified in its entirety by reference to APPENDIX E to the Original Official Statement for a specimen Financial Guaranty Insurance Policy. The information contained below under this caption "FINANCIAL GUARANTY INSURANCE" has been furnished by the Insurer and none of the Corporation, the Authority, the Letter of Credit Issuer nor the Remarketing Agent has undertaken any independent investigation of the Insurer or its ability to make payments in accordance with the Policy.

The Insurer's obligations to perform under the Policy is not dependent on the performance of the Letter of Credit Issuer to honor drawings under the Letter of Credit. Failure of the Letter of Credit Issuer to honor drawings under the Letter of Credit does not relieve the Insurer of its obligation under the Policy.

Financial Guaranty Insurance Policy. A financial guaranty insurance policy (the "Policy") was issued by Radian Asset Assurance Inc. (the "Insurer") simultaneously with the issuance and delivery of each series of the Series 2007 Bonds. Each Policy is noncancelable during its term and provides for the prompt payment of principal of and interest on the Series 2007 Bonds to the extent that the Bond Trustee has not received sufficient funds from the Authority for payment of the Series 2007 Bonds 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 Mellon, as Insurance Trustee (the "Insurance Trustee"), that the Authority has failed to pay amounts due on the Series 2007 Bonds. Under the Policy, the "due date" of the Series 2007 Bonds, 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 Series 2007 Bonds, 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 Bond 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.

Upon the occurrence and continuance of an Event of Default, the Insurer, may, in its discretion, direct the acceleration of the Series 2007 Bonds 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 Series 2007 Bonds. For specific information on the coverage provided, reference should be made to the Policy that has been reproduced in specimen form in APPENDIX E to the Original Official Statement. The Policy does not insure against nonpayment of principal or interest on the Series 2007 Bonds due to the insolvency, misconduct or negligence of the Bond Trustee. The Policy does not insure the payment of any redemption premium.

Description of Radian Asset Assurance Inc. The Insurer is a monoline financial guaranty insurance company, regulated by the Insurance Department of the State of New York and licensed to do business in all 50 states, the District of Columbia, Guam and the United States Virgin Islands. As of September 30, 2007, the Insurer had total consolidated shareholders' equity of approximately $1,607,013,000 and total consolidated assets of approximately $2,788,746,000, which amounts include the effects of a $100 million capital infusion into the Insurer made by the Insurer's ultimate parent, Radian Group Inc. ("Radian") on September 7, 2007.

The financial information relating to the Insurer presented in this Reoffering Circular was prepared internally by the Insurer, based on accounting principles generally accepted in the United States of America ("GAAP"), and has not been audited by independent auditors. 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 information contained in (i) – (iv) below with entities designated as Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934, and such financial information is available through such NRMSIRs:

(i) The Insurer's audited consolidated financial statements as of December 31, 2006 and 2005, and for each of the three years in the period ended December 31, 2006, prepared in accordance with GAAP, together with the accompanying report of the Insurer's independent registered public accounting firm, which expresses an unqualified opinion (the "Radian Financial Statements");

(ii) The Insurer's quarterly unaudited consolidated balance sheet as of March 31, 2007 and unaudited consolidated statement of operations for the three-month period then ended, prepared in accordance with GAAP;

(iii) The Insurer's quarterly unaudited consolidated balance sheet as of June 30, 2007 and unaudited consolidated statement of operations for the six-month period then ended, prepared in accordance with GAAP; and

(iv) The Insurer's quarterly unaudited consolidated balance sheet as of September 30, 2007 and unaudited consolidated statement of operations for the nine-month period then ended, prepared in accordance with GAAP.

On September 26, 2007, the Insurer's independent auditors, Deloitte & Touche LLP, declined to stand for reappointment as Radian's and its subsidiaries', including the Insurer, independent auditors for the 2007 audit and its engagement will end shortly following the filing of Radian's Quarterly Report on Form 10-Q for the third quarter of 2007. On October 30, 2007, Radian engaged PricewaterhouseCoopers LLP as its and its subsidiaries', including the Insurer's, independent registered public accounting firm for the year ending December 31, 2007.

Additional information regarding the Insurer can be found in documents filed by Radian with the Securities and Exchange Commission ("SEC") referring to the Insurer, the financial guaranty business or financial guaranty insurance including: (a) Annual Report on Form 10-K for the year ended December 31, 2006, under the headings: (i) "Forward Looking Statements - Safe Harbor Statement" (but only insofar as it relates to the financial guaranty business or financial guaranty insurance); (ii) Item 1. Business "I. General" (but only insofar as it relates to the financial guaranty business or financial guaranty insurance), "Financial Guaranty Business (General)," including subsections 1-4 thereunder, "II. Risk in Force/Net Par Outstanding – B. Financial Guaranty (Risk in Force/Net Par Outstanding)," "III. Defaults and Claims – B. Financial Guaranty (Defaults and Claims)," "IV. Loss Management — B. Financial Guaranty (Loss Management)," V. Risk Management – B. Financial Guaranty (Risk Management)," including subsections 1 and 2 thereunder, "VI. Customers – B. Financial Guaranty (Customers)," "VII. Sales and Marketing – Financial Guaranty (Sales and Marketing)," "VIII - Competition – Financial Guaranty (Competition)," "IX. Ratings" (but only insofar as it relates to the Insurer), and "XI. Regulation" Parts A 2-6, C and D (but in each case only insofar as it relates to the Insurer or the financial guaranty business); (iii) "Item 1A – Risk Factors" "– Risks Affecting Our Company" (but only insofar as it relates to the Insurer, the financial guaranty business (or the proposed merger between Radian and MGIC (as defined

below)) and "– Risks Particular to our Financial Guaranty Business"; (iv) "Item 6 - "Selected Ratios - Financial Guaranty" and "Other Data - Financial Guaranty," and (v) Item 7 – "Managements' Discussion and Analysis of Financial Condition and Results of Operations "Business Summary – Financial Guaranty," "Overview of Business Results" (but only insofar as it relates to the Insurer), "Results of Operations - Financial Guaranty" and "Liquidity and Capital Resources" (but only to the extent it relates to the Insurer), and "Critical Accounting Policies" (but only to the extent it relates to the Insurer, the financial guaranty business or "Financial Guaranty"); (b) Quarterly Reports on Form 10-Q for the periods ended March 31, 2007, June 30, 2007 (as amended) and September 30, 2007, in Part I, Item 2 – Managements' Discussion and Analysis of Financial Condition and Results of Operations, under the following headings: "Business Summary – Financial Guaranty," "Overview, of Business Results" (but only to the extent it relates to the Insurer), "Results of Operations – Financial Guaranty," "Liquidity and Capital Resources" (but only to the extent it relates to the Insurer) and "Critical Accounting Policies" (but only to the extent it relates to "Financial Guaranty"); (c) the Reports on Form 8-K dated January 24, 2007, February 6, 2007, February 9, 2007, February 12, 2007, April 9, 2007, April 25, 2007, May 11, 2007, July 25, 2007, August 2, 2007, August 13, 2007, August 16, 2007, August 29, 2007, September 5, 2007, September 10, 2007, and October 2, 2007, October 30, 2007 and November 1, 2007; and (d) Report on Form 8-K/A filed March 16, 2007 (amending Report on Form 8-K filed February 6, 2007). This information shall be deemed to be incorporated herein by reference and to be a part of this Reoffering Circular.

Any documents, including any financial statements or financial information of the Insurer and its subsidiaries that are included therein or attached as exhibit thereto, filed by Radian pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of Radian's most recent Quarterly Report on Form 10-Q (as listed in (b) above) or Annual Report on Form 10-K (as listed in (a) above), and prior to the remarketing of the Series 2007 Bonds hereby, that refer to the Insurer or relate to the financial guaranty business or financial guaranty insurance shall be deemed to be referred to above, incorporated by reference into this Reoffering Circular from the respective dates of filing such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or otherwise contained in this Reoffering Circular, shall be deemed to be modified or superseded for purposes hereof to the extent that a statement contained herein or in any subsequently filed document which also is or deemed incorporated herein by reference modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Reoffering Circular.

A complete copy of the Radian Financial Statements is available from the Insurer upon written request.

The Insurer is an indirect, wholly owned subsidiary of Radian, a publicly owned corporation with its shares listed on the New York Stock Exchange (symbol "RDN"). Radian is a global credit risk management company headquartered in Philadelphia with significant operations in both New York and London. Radian develops innovative financial solutions by applying its core mortgage credit risk expertise and structured finance capabilities to the credit enhancement needs of the capital markets worldwide, primarily through credit insurance products. The company also provides credit enhancement for public finance and other corporate and consumer assets on both a direct and reinsurance basis and holds strategic interests in credit-based consumer asset businesses. Additional information may be found at www.radian.biz. 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.

The Insurer is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile. In addition, Radian and its insurance

subsidiaries are subject to regulation by insurance laws of the various other jurisdictions in which they are licensed to do business. As a financial guaranty insurance corporation licensed to do business in the State of New York, the Insurer is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance and related business lines, requires that each financial guaranty insurer maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for each financial guaranty insurer, and limits the size of individual transactions and the volume of transactions that may be underwritten by each financial guaranty insurer. Other provisions of the New York Insurance Law, applicable to non-life insurance companies such as the Insurer regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liability for borrowings.

Neither the Insurer nor any of its affiliates accepts any responsibility for the accuracy or completeness of, nor have they participated in the preparation of, this Reoffering Circular or any information or disclosure that is provided to potential purchasers of the Series 2007 Bonds, or omitted from such disclosure, other than with respect to the accuracy of information presented under the caption "FINANCIAL GUARANTY INSURANCE" and as set forth in APPENDIX E to the Original Official Statement. The Insurer's role is limited to providing the coverage set forth in the Policy. In addition, the Insurer makes no representation regarding the Series 2007 Bonds or the advisability of purchasing the Series 2007 Bonds.

On February 6, 2007, Radian and MGIC Investment Corporation (NYSE: MTG) ("MGIC") entered into an Agreement and Plan of Merger, pursuant to which Radian agreed, subject to the terms and conditions of the merger agreement, to merge with and into MGIC. On September 4, 2007, facing market conditions that had made combining the companies significantly more challenging, Radian and MGIC entered into an agreement that terminated the Agreement and Plan of Merger, abandoned the merger contemplated by such agreement and released each other from related claims. Neither company made a payment to the other in connection with the termination.

The current ratings of the Insurer are "AA" (outlook stable) by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") and "Aa3" (outlook stable) from Moody's Investors Service, Inc. ("Moody's"). As discussed below, Radian has formally requested that Fitch Ratings Services ("Fitch") immediately withdraw its insurer financial strength ratings on the Insurer. Notwithstanding this withdrawal request, Fitch continues to maintain an A+ (Ratings Watch Evolving) rating on the Insurer.

On September 5, 2007, S&P published a report stating that, unlike the ratings for Radian and its mortgage insurance subsidiaries ("Radian MI") which are on CreditWatch with negative implications, the "AA" rating on the Insurer is not on CreditWatch. This report also indicated that Radian's management has stated that it is willing to take whatever reasonably practicable steps would be necessary to protect the Insurer from the weaker holding company and affiliates were Radian and Radian MI to be downgraded.

On September 5, 2007, Moody's affirmed the Insurer's "Aa3" insurance financial strength rating and stable outlook. Moody's attributed this affirmation to the Insurer's stable earnings, limited exposure to residential mortgage risk and the diversity of its direct financial guaranty and reinsurance portfolio. Moody's stated that it believes the Insurer is adequately capitalized for the risk of its insured portfolio and that Radian's $100 million capital infusion into the Insurer will further bolster the Insurer's capital position, enhancing its flexibility to continue to write new business.

On July 31, 2007, Fitch placed the "AA" insurer financial strength rating of the Insurer, all obligations insured by the Insurer and all of Radian's other insurance subsidiaries on Rating Watch

Negative. On September 5, 2007, following the announcement of the termination of the pending merger between Radian and MGIC, Fitch downgraded the insurer financial strength rating of the Insurer and the ratings for all obligations insured by the Insurer to "A+" from "AA" and revised the Rating Watch on the Insurer to "Evolving" from "Negative." Fitch stated that the Ratings Watch Evolving on the Insurer indicates that the ratings of the Insurer could be raised, lowered or affirmed within the very near-term. Absent additional financial or capital support from either internal or external means, Fitch indicated it is likely that the Insurer's ratings will be lowered further, but if additional financial backing is forthcoming, Fitch will evaluate that level of support and will consider upgrading the Insurer's ratings at that time.

On September 5, 2007, Radian formally requested that Fitch immediately withdraw all of its ratings for Radian and its subsidiaries, including the insurer financial strength ratings on the Insurer. Consequently, Radian has ceased providing information to Fitch in support of its ratings of the Insurer. On September 9, 2007, Fitch announced that it would not honor Radian's request at that time in light of the current high level of investor interest in both the mortgage insurance and financial guaranty industries, but that Fitch would instead monitor investor interest and make a decision with respect to Radian's request at a future date based on market feedback. Fitch also acknowledged that it would withdraw its ratings of Radian and its subsidiaries regardless of investor interest if it believed that it no longer had access to adequate public and non-public information to credibly maintain its ratings.

The ratings of S&P, Moody's and Fitch reflect only the views of the applicable rating agency, respectively, do not constitute a recommendation to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies. Any further explanation of any rating may be obtained only from the applicable rating agency. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2007 Bonds. The Insurer does not guarantee the market price or investment value of the Series 2007 Bonds nor does it guarantee that the ratings on the Series 2007 Bonds will not be revised or withdrawn.

BONDHOLDERS' RISKS

A purchase of the Series 2007 Bonds involves certain investment risks that are discussed under the caption "BONDHOLDERS' RISKS" in the Original Official Statement. Accordingly, each prospective purchaser of the Series 2007 Bonds should make an independent evaluation of all of the information presented in the Original Official Statement and this Reoffering Circular in order to make an informed investment decision. Certain risks are described below. See also the information under the caption "BONDHOLDERS' RISKS" in the Original Official Statement. The discussion of risk factors is not meant to be exhaustive.

The primary security for the Series 2007 Bonds is intended to be the Letters of Credit. Reference is made to the information provided under the caption "JPMORGAN CHASE BANK, NATIONAL ASSOCIATION" which contains certain financial information regarding the Letter of Credit Issuer. It is possible however, in the event of the insolvency of the Letter of Credit Issuer or the occurrence of some other event precluding the Letter of Credit Issuer from honoring its obligation to make payments as stated in the Letters of Credit and in the event the Insurer fails to meet its obligation under the Policy, that the financial resources of the Corporation will be the only sources of payment on the Series 2007 Bonds. There can be no assurance that the financial resources of the Corporation would be sufficient to pay the principal, premium, if any, and interest on the Series 2007 Bonds. For information related to the Corporation, please see APPENDIX A – INFORMATION CONCERNING THE CORPORATION.

Additionally, the future financial condition of the Corporation and its ability to generate revenues in an amount sufficient to satisfy principal and interest requirements on the Series 2007 Bonds could be affected adversely by, among other things, legislation, regulatory actions, federal and state policies

affecting the health care industry, changes in the method and amount of payments to the Corporation by non-governmental third-party payors, the financial viability of third-party payors, increased competition from other health care providers, demand for health care services, changes in the methods by which employers purchase health care for employees, capability of management, future changes in the economy, demographic changes and malpractice claims and other litigation.

The financial strength of the Corporation depends in large part upon the ability of the Corporation to attract sufficient numbers of residents to its facilities and to maintain sufficient occupancy, throughout the term of the Series 2007 Bonds. The revenues and expenses associated with the operation of the existing facilities of the Corporation will be affected by events and conditions relating generally to, among other things, government regulations, third-party reimbursement programs, managed care programs, demand for inpatient and outpatient hospital services, the ability of the Corporation to provide the services required by residents, economic developments in the affected service areas, competition, rates and costs. The facilities of the Corporation are located in areas where facilities providing similar or comparable services exist. Such competition likely will inhibit the extent to which the Corporation will be able to raise charges and maintain or increase admissions.

The Corporation and the nursing home and long-term care industry in general are subject to regulation by a number of governmental and private agencies, including those that administer the Medicare program, as well as other federal, state and local governmental agencies. As a result, the Corporation and the nursing home and long-term care industry are sensitive to changes in such programs and are affected by cuts and limitations on government spending for such programs.

The Corporation, like other nursing home and long-term care facilities throughout the country, are affected on a day-to-day basis by numerous legislative, regulatory and industry-imposed operational and financial requirements which are administered by a variety of federal and state governmental agencies, as well as by private payors and others. A significant portion of the revenue of the Corporation is derived from the Medicare program. The Corporation would be adversely affected to the extent that reimbursement from these sources for services rendered is less than the actual expenses incurred.

In the event that the Letter of Credit Issuer fails to honor a draw request obligation under a Letter of Credit to pay principal and interest on the related series of the Series 2007 Bonds, or in the event of a draw on such Letter of Credit to pay principal and interest on the related series of the Series 2007 Bonds and the failure of the Corporation to provide funds to reimburse the Letter of Credit Issuer under the Letter of Credit Agreement, any Bondholder, including the Letter of Credit Issuer, shall have recourse against the Insurer for such payments. However, the Policy does not insure the principal of or interest on the Series 2007 Bonds coming due by reason of acceleration or optional or extraordinary redemption nor does it insure the payment of a redemption premium, if any, payable upon the redemption of the Series 2007 Bonds.

Under no circumstances, including the situation in which the interest on the Series 2007A Bonds becomes subject to federal taxation for any reason, can the maturity of the Series 2007 Bonds be accelerated without the consent of the Insurer, so long as the Insurer performs its obligations under the Policy. Furthermore, so long as the Insurer performs its obligations under the Policy, the Insurer may direct, and must consent to (with the consent of the Letter of Credit Issuer in certain circumstances), any remedies that the Bond Trustee exercises under the Bond Indenture.

There can be no assurance that the Insurer will be financially able to meet its contractual obligations under the Policy. In the event that the Insurer is unable to make payments of principal and interest on the Series 2007 Bonds, as such payments become due, the Series 2007 Bonds are payable solely from moneys received by the Bond Trustee from draws under the Letter of Credit and from the

Corporation under the Loan Agreement and the Master Indenture. See "FINANCIAL GUARANTY INSURANCE" herein for further information concerning the Insurer and the Policy. Such information was provided by the Insurer, and no representation is made as to the adequacy or accuracy thereof.

See the information under the caption "BONDHOLDERS' RISKS – Bond Insurance" in the Original Official Statement.

In the event that the Insurer is required to pay principal of or interest on the Series 2007 Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price or marketability of the Series 2007 Bonds.

RATINGS

Moody's Investors Service Inc. ("Moody's") is expected to assign the Series 2007 Bonds a rating of "Aaa/VMIG 1" based solely upon the delivery of the Letters of Credit by the Letter of Credit Issuer.

The Letter of Credit Issuer has furnished Moody's with certain information and materials which have not been included in this Reoffering Circular. Generally, Moody's bases its ratings on information and materials so furnished and on investigations, studies and assumptions by Moody's. The ratings assigned to the Series 2007 Bonds reflect only the views of Moody's at the time such ratings were issued, and an explanation of the significance of such ratings may be obtained only from Moody's. Such ratings are not a recommendation to buy, sell or hold the Series 2007 Bonds. There is no assurance that such ratings will continue for any given period of time or that they will not be lowered or withdrawn entirely by Moody's if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of this rating may have an adverse effect on the market price of the Series 2007 Bonds.

TAX MATTERS

Series 2007A Bonds

In the opinion of Holland & Knight LLP, Bond Counsel, rendered on May 2, 2007, under then-existing law, the interest on the Series 2007A Bonds is exempt from present State of California personal income taxes. In addition, in the opinion of Bond Counsel, rendered on May 2, 2007, under then-existing law, interest on the Series 2007A Bonds is excludable from gross income for federal income tax purposes. That opinion of Bond Counsel was rendered in reliance upon certain schedules provided by Cain Brothers and verified as to mathematical accuracy by Grant Thornton, LLP. On the date that the Liquidity Facility is terminated, the Bond Indenture and Loan Agreement are amended and restated, and the Letter of Credit is delivered to the Bond Trustee, Bond Counsel is rendering a further opinion to the effect that the termination of the Liquidity Facility, the amendment and restatement of the Bond Indenture and the Loan Agreement and the delivery of the Letter of Credit to the Bond Trustee will not in and of themselves adversely affect the exclusion from gross income of interest on the Series 2007A Bonds for federal income tax purposes. Bond Counsel will not express any other opinion at that time as to the exclusion of interest on the Series 2007A Bonds from gross income for federal income tax purposes or any opinion as to any other federal or state tax consequences arising from the receipt of interest on, or ownership of, the Series 2007A Bonds.

The Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Series 2007A Bonds in order for the interest thereon to be and remain excludable from gross income for federal income tax purposes. Examples include: the requirement that the Corporation maintain its status

as an organization exempt from federal income taxation by reason of being described in Section 501(c)(3) of the Code; the requirement that, unless an exception applies, the Authority rebate certain excess earnings on proceeds and amounts treated as proceeds of the Series 2007A Bonds to the United States Treasury; restrictions on the investment of such proceeds and other amounts; and restrictions on the ownership and use of any facilities financed or refinanced with the proceeds of the Series 2007A Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the Authority and the Corporation subsequent to the issuance of the Series 2007A Bonds to maintain the exclusion of interest on the Series 2007A Bonds from gross income for federal income tax purposes. Failure to comply with such requirements may cause the inclusion of interest on the Series 2007A Bonds in the gross income of the owners thereof for federal income tax purposes, retroactive to the date of issuance of the Series 2007A Bonds. The Authority and the Corporation have covenanted in the Amended and Restated Bond Indenture and the Amended and Restated Loan Agreement to comply with each such requirement of the Code that must be satisfied subsequent to the issuance of the Series 2007A Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Bond Counsel, rendered on May 2, 2007, is subject to the condition that the Authority and the Corporation comply with all such requirements. Bond Counsel has not been retained to monitor compliance with the described post-issuance tax requirements subsequent to the issuance of the Series 2007A Bonds. In particular, Bond Counsel has not undertaken since the date of issuance of the 2007A Bonds any investigation or inquiry as to the use of proceeds of the Series 2007A Bonds or the facilities financed or refinanced thereby, or as to compliance by the Authority or the Company with their covenants relating to the Series 2007A Bonds or the facilities financed or refinanced thereby, and expresses no opinion with respect thereto.

Notwithstanding the foregoing, Bond Counsel expresses no opinion as to whether a change in Mode will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2007A Bonds. The Amended and Restated Bond Indenture requires an opinion of Bond Counsel with regard to a change in Mode before any such change occurs.

Alternative Minimum Tax. An alternative minimum tax is imposed by the Code on both corporations (as defined for federal income tax purposes) and on taxpayers other than corporations. In the opinion of Bond Counsel, rendered on May 2, 2007, under then-existing law, interest on the Series 2007A Bonds will not be treated as an item of tax preference for purposes of the alternative minimum tax. Interest on the Series 2007A Bonds will therefore not be included in the alternative minimum taxable income of taxpayers other than corporations. Interest on the Series 2007A Bonds received by a corporate Bondholder will, however, be included in such a Bondholder's adjusted current earnings. A corporation's alternative minimum taxable income will be increased by seventy-five percent (75%) of the corporation's adjusted current earnings not otherwise included in its alternative minimum taxable income. The rate of the alternative minimum tax imposed on corporations is twenty percent (20%).

Reference is made to the opinion of Bond Counsel as to the Series 2007A Bonds, rendered on May 2, 2007, attached hereto as APPENDIX D to the Original Official Statement and the proposed form of the supplemental opinion of Bond Counsel as to the Series 2007A Bonds attached hereto as APPENDIX D for the complete texts thereof.

Other Tax Consequences. Prospective purchasers of the Series 2007A Bonds should be aware that ownership of the Series 2007A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series 2007A

Bonds. Prospective purchasers of the Series 2007A Bonds should also be aware that ownership of the Series 2007A Bonds may result in adverse tax consequences under the laws of various states. Bond Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with respect to the Series 2007A Bonds. Further, Bond Counsel has expressed no opinion regarding the state tax consequences that may arise with respect to the Series 2007A Bonds other than the opinion described above relating to present State of California personal income taxes. Prospective purchasers of the Series 2007A Bonds should consult their tax advisors as to the collateral federal income tax and state tax consequences to them of owning the Series 2007A Bonds.

Information Reporting and Backup Withholding. Interest paid on tax-exempt bonds, such as the Series 2007A Bonds, is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the 2007A Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate holders of Series 2007A Bonds, under certain circumstances, to "backup withholding" at (i) the fourth lowest rate of tax applicable under Section 1(c) of the Code (i.e., a rate applicable to unmarried individuals) for taxable years beginning on or before December 31, 2010; and (ii) the rate of 31% for taxable years beginning after December 31, 2010, with respect to payments on the Series 2007A Bonds and proceeds from the sale of Series 2007A Bonds. Any amounts so withheld would be refunded or allowed as a credit against the federal income tax of such holder of Series 2007A Bonds. This withholding generally applies if the holder of Series 2007A Bonds (i) fails to furnish the Bond Trustee (or other payer) such holder's social security number or other taxpayer identification number ("TIN"), (ii) furnished the Bond Trustee (or other payer) an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Bond Trustee (or other payer) or such holder's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such holder is not subject to backup withholding.

Series 2007B Bonds

The following is a general discussion of the anticipated federal income tax consequences from the purchase, ownership, and disposition of the Series 2007B Bonds. This summary and the opinions referred to below are based upon the Code, including regulations, rulings and decisions now in effect, all of which are subject to change. The discussion below does not purport to address all aspects of federal taxation that may be relevant to particular investors in light of their individual circumstances, or to certain types of investors subject to special treatment under the federal income tax laws. There can be no assurance that contrary positions to those positions expressed below will not be taken by the Internal Revenue Service.

In addition, the following advice concerning the Series 2007B Bonds was not intended or written to be used, and it cannot be used by any prospective purchaser of the Series 2007B Bonds or other taxpayer, for the purpose of avoiding any penalties that may be imposed on the taxpayer. The following advice was written to support the promotion or marketing of the Series 2007B Bonds. A prospective purchaser of the Series 2007B Bonds or other taxpayer should seek advice based on the taxpayer's particular circumstances from an independent tax advisor. Prospective investors are advised to consult their own tax advisors regarding both the federal income tax consequences from the purchase, ownership or disposition of the Series 2007B Bonds as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

In the opinion of Bond Counsel, rendered on May 2, 2007, under then-existing law, stated interest on the Series 2007B Bonds will be treated as interest income for federal income tax purposes. ALSO, IN

THE OPINION OF BOND COUNSEL, RENDERED ON MAY 2, 2007, UNDER THEN-EXISTING LAW, INTEREST ON THE SERIES 2007B BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. Further, in the opinion of Bond Counsel, rendered on May 2, 2007, under then-existing law, the interest on the Series 2007B Bonds is exempt from present State of California personal income taxes.

Reference is made to the opinion of Bond Counsel as to the Series 2007B Bonds, rendered on May 2, 2007, included herein as APPENDIX D to the Original Official Statement for the complete text thereof.

Tax Treatment of Foreign Investors. Under Sections 871 and 881 of the Code, interest income with respect to the Series 2007B Bonds held by non-resident alien individuals, foreign corporations or other non-United States persons ("Non-residents") may be subject to a 30% United States withholding tax unless that tax is reduced or eliminated pursuant to an applicable tax treaty. That withholding tax will generally not be imposed, however, if the Bond Trustee (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement identifying the beneficial owner of the Series 2007B Bonds and stating, among other things, that the beneficial owner is a Non-resident. The withholding tax will also not apply if interest on the Series 2007B Bonds is effectively connected with a United States business conducted by the Non-resident. Foreign investors should consult their tax advisors regarding potential imposition of the 30% withholding tax.

Backup Withholding. Under the Code, a non-corporate holder of Series 2007B Bonds may, under certain circumstances, be subject to "backup withholding" at (i) the fourth lowest rate of tax applicable under Section 1(c) of the Code (i.e., a rate applicable to unmarried individuals) for taxable years beginning on or before December 31, 2010; and (ii) the rate of 31% for taxable years beginning after December 31, 2010, with respect to payments on the Series 2007B Bonds and proceeds from the sale of Series 2007B Bonds. Any amounts so withheld would be refunded or allowed as a credit against the federal income tax of such holder of Series 2007B Bonds. This withholding generally applies if the holder of Series 2007B Bonds (i) fails to furnish the Bond Trustee (or other payer) such holder's social security number or other taxpayer identification number ("TIN"), (ii) furnished the Bond Trustee (or other payer) an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Bond Trustee (or other payer) or such holder's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such holder is not subject to backup withholding. Holders of Series 2007B Bonds should consult their own tax advisors as to their qualifications for exemption from backup withholding and the procedures for obtaining the exemption.

Sales, Exchanges, and Transfers. If a holder of Series 2007B Bonds sells or otherwise transfers a Series 2007B Bond, taxable gain or loss may result, as in the case with any sale or other transfer of an investment.

CONTINUING DISCLOSURE

While the Series 2007 Bonds are in a Daily Mode or a Weekly Mode, the Series 2007 Bonds are exempt from the requirements of Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended.

MISCELLANEOUS

All references herein to the Original Official Statement, the Bond Indenture, the Loan Agreement, the Letters of Credit, the Letter of Credit Agreement, the Master Indenture and other legal instruments described herein are qualified in their entirety by reference to the text of such instruments, and all references herein to the Series 2007 Bonds are qualified in their entirety by reference to the form thereof included in the Bond Indenture. A copy of the Original Official Statement is attached hereto as APPENDIX E. Copies of the Bond Indenture, the Loan Agreement, the Letters of Credit, the Letter of Credit Agreement and the Master Indenture are available for inspection at the principal corporate trust office of the Bond Trustee in Los Angeles, California.

The execution and delivery of this Reoffering Circular have been duly authorized and approved by the Corporation.

CASA DE LAS CAMPANAS, INC.

By: /s/ William J. Carlson
Vice Chairman of the Board of Directors

By: /s/ David Johnson
Chief Financial Officer

APPENDIX A

INFORMATION CONCERNING THE CORPORATION

The information contained in this
Appendix A has been obtained from Casa de las Campanas, Inc.

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HISTORY AND BACKGROUND

Casa de las Campanas, Inc. (the "Corporation") is a California nonprofit public benefit corporation and is exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). The Corporation was originally organized in 1989 to provide multi-level housing, non-acute health care and related services to the elderly.

The Corporation owns a 412-unit continuing care retirement facility (the "Retirement Center"), which includes an 18-unit assisted living unit with a capacity of 26 beds (the "Assisted Living Unit"), an 18-unit dementia unit with a capacity of 27 beds (the "Dementia Unit"), and an adjacent 99-bed skilled nursing facility (the "Skilled Nursing Facility"), located in the Rancho Bernardo area of northern San Diego County, 25 miles from downtown San Diego, California. The Retirement Center, including the Assisted Living Unit and the Dementia Unit, and Skilled Nursing Facility are referred to herein as the "Facilities."

FACILITIES AND SERVICES

Description of the Facilities

The Facilities are located on an approximately 22 acre site owned by the Corporation. The Retirement Center and Skilled Nursing Facility were constructed in two phases, with 242 residential units, the Assisted Living Unit and the Skilled Nursing Facility constructed in the first phase ("Phase I") and the remaining residential units constructed in the second phase ("Phase II"). Occupancy of the Phase I residential units began in July 1988, and occupancy of the Phase II residential units began in July 1989. The Skilled Nursing Facility was completed and licensed to operate in February 1989. The Dementia Unit was completed and licensed to operate in December 2005.

The Retirement Center consists of residential buildings that are provided with equipment and features designed for geriatric safety. In addition to the residential unit portion of the Retirement Center, the Assisted Living Unit and the Dementia Unit, the buildings house a salon, library, billiard room, card room, on-site ATM machine, a convenience store, and common areas for dining, fitness, social, computer, arts and crafts, and other activities. Outdoors, there are several landscaped courtyards for recreational activities, including gardening, as well as a dog run, two outdoor swimming pools and reserved parking. All residential units include carpeting, full kitchens with major appliances, emergency call systems, smoke detectors, bathroom grab bars and storage space.

The Assisted Living Unit consists of an 18,478 square foot facility with a total of 18 units, including 12 private rooms and eight semi-private rooms. The Assisted Living facilities are located within the same building as Retirement Center units, but have additional health support services and a separate dining room. Residents of the Assisted Living Unit benefit from a passive monitoring system to assure their safety, a social activity program seven days a week, and staffing at a higher level to monitor and address cognitive issues and communicating changes in condition to their responsible party and physician.

The Dementia Unit consists of a 13,500 square foot stand-alone facility. Residents residing at this level of care benefit from a social model of programming designed to meet the unique needs of residents with mild to moderate stages of cognitive impairment.

The Skilled Nursing Facility is located in a single-story structure and is licensed for 96 semi-private skilled nursing beds and 3 private skilled nursing beds. The Skilled Nursing Facility also

includes a central landscaped courtyard, a large fish tank, an activity room, two dining rooms, administrative offices, an employee lounge, and two nursing stations.

In 2003, the Corporation implemented a "Keep Casa Current" capital improvement program for common areas and residential units. This program was developed through comprehensive surveys and focus groups of residents at the Facilities seeking their input on making capital upgrades to the Facilities as well as improving resident services, particularly in the Assisted Living Unit and the Skilled Nursing Facility. The "Keep Casa Current" program involved residential apartment upgrades such as new cabinets, countertops in the kitchen and bath, new closet doors, carpet, paint and appliances. Other construction projects to the Facilities have included major roofing repairs and replacements, central HVAC, Nurse Call System, heat pump replacements, balcony and stucco repair, new lobby, ADA access upgrades, sidewalks, new employee parking lot, new day spa and training room, new carpet, interior remodel of the Skilled Nursing Facility, new elevator, new building for Dementia Unit, new cooling tower, new park and landscape, remodel dining rooms, new doors and hardware, and energy management system.

A portion of the proceeds of the Bonds were used to reimburse the Corporation for the costs of the Dementia Unit and certain of these improvements to the Facilities.

Management of the Facilities

The Facilities are managed by Life Care Services LLC ("LCS") under a management agreement between LCS and the Corporation. See "MANAGEMENT AGENT" herein.

Description of the Services Provided

Services for residents generally include one or more meals per day, building and grounds maintenance, custodial service, weekly flat laundry service, scheduled transportation service, all utilities except telephone and cable television, personal care services, assisted living services, unlimited nursing home care in the Skilled Nursing Facility at no additional cost other than additional daily meals and certain other outlined costs, tray service, planned activities, bi-weekly housekeeping services, parking, use of all common and activity areas, an emergency call system, smoke detectors and security.

Residential Living. Residents receive accommodations that include building and grounds maintenance and security; 24-hour emergency call system; utilities that include water, trash collection, central heating, electricity and gas; basic television service; basic furnishings that include draperies and wall-to-wall carpeting; up to three nutritionally balanced meals per day; weekly housekeeping and linen services; storage space; parking; recreation; fitness, cultural, educational, spiritual, and social programs; catering services; chaplain and worship services; and scheduled transportation services. Assistance with self-administered medications, nutrition services, wellness clinical services and care of minor ailments are also provided. Additional optional services are available.

Assisted Living. Residents receive the residential living services identified above plus additional assistance with general activities of daily living such as bathing, grooming, dressing, feeding, ambulation and assistance with storage and distribution of medications. Licensed nurses, certified nursing assistants or other trained caregivers are available on a 24-hour basis to monitor and assist residents.

Dementia. Residents receive the residential living services identified above plus additional assistance with a social activity program seven days a week and staffing at a higher level to monitor and address cognitive issues and communicate changes in condition to their responsible party and physician. In addition, general activities of daily living such as bathing, grooming, dressing, feeding, ambulation and

assistance with storage and distribution of medications. Licensed nurses, certified nursing assistants or other trained caregivers are available on a 24 hour basis to monitor and assist residents.

Skilled Nursing. Residents receive 24-hour per day licensed nursing care that includes care planning, skin and wound care, incontinence care and coordination of diagnostic and therapeutic services, all of which are performed under the supervision of the resident's physician. Rehabilitation services, social services and specialized dietary care are provided on an ongoing basis.

Future Residents. The "Future Resident's Club" is designed for future residents of the Facilities who are automatically "enrolled" in the club when they join the waiting list. The benefits to future residents include one meal per month, invitations to quarterly on-site events (such as a wine and cheese social), and the eligibility to attend resident activity events on a space available basis.

RESIDENCE AGREEMENTS

The continuing care contracts that the Corporation uses at the Facilities (the "Residence Agreements") have been approved by the California Department of Social Services ("Social Services") as complying with all relevant statutory and regulatory requirements.

Current Resident Agreements

The Retirement Center will generally accept as residents persons at least 62 years of age who are able to care for themselves as outlined in the Residence Agreements, and who have financial resources sufficient to pay the entrance fee, monthly service fee and other daily living expenses. It is a contractual requirement of the Residence Agreements that a resident not be displaced from the Facilities should such resident be incapable of paying the monthly service fees. Under the terms of the Residence Agreements, the resident agrees to pay an initial entrance fee and a monthly service fee that entitle the resident to occupy a residential unit for lifetime use and to receive certain services (including health care services), subject to certain conditions outlined in the Residence Agreements. Services provided under the Residence Agreements are as described under "FACILITIES AND SERVICES – Description of Services Provided."

Entrance fees range from $155,000 for a studio unit to $970,270 for a two-bedroom premium view unit. Monthly service fees range from $1,836 for a studio unit up to $4,992 for a two-bedroom premium view unit. Management believes, based on a marketing analysis, that the entrance fees and monthly service fees charged by the Corporation are competitive with entrance fees and monthly service fees charged by other continuing care retirement facilities.

The Corporation requires, in accordance with a deposit subscription agreement, a deposit of 20% of the entrance fee before a residential unit is considered reserved. If the deposit subscription agreement is terminated by the prospective resident before such resident moves into the Facilities, a refund of the entire deposit is made, without interest, less a processing fee of $1,000, within 30 days of termination. If the prospective resident dies or is not accepted for residency, the entire deposit, without interest, will be refunded within 30 days.

Each prospective resident enters into a Residence Agreement prior to occupancy of the residential unit. Upon entering into the Residence Agreement, the balance of the entrance fee is paid, the deposit subscription agreement is cancelled and a 90-day cancellation period commences. During the cancellation period, the resident or the Corporation may cancel the Residence Agreement without cause. Upon cancellation of the Residence Agreement or death during the cancellation period all funds deposited by the resident, including interest earned during the deposit period, will be refunded less (i) a $1,000

processing fee, (ii) the costs of special modifications of features made to the residential unit as requested by the resident and (iii) the reasonable value of any services or items provided by the Corporation and not included in the Residence Agreement.

Prospective residents currently have two forms of Residence Agreements from which to choose, the Standard Plan and 75% Refundable Plan. Under the Standard Plan, if a resident assumes occupancy in the Retirement Center and his or her Residence Agreement is cancelled by the resident for any reason other than death of the resident after expiration of the 90-day cancellation period, the resident will receive a refund of the entrance fee less the sum of (i) a 10% cancellation fee, (ii) 1% per month of occupancy, and (iii) any accrued and unpaid expenses, including without limitation any unreimbursed expenses incurred for the resident's care at the Skilled Nursing Facility. The resident must give 90 days' notice to cancel a contract, and any refund is required to be paid within 14 days after the unit is vacated. After seven and one-half years (90 months) of occupancy, no refund will be made under the Standard Plan. Under the Standard Plan, no refund is made to a resident's estate if the Residence Agreement is cancelled because of death after expiration of the 90-day cancellation period. Currently, approximately 437 or 98% of all Residence Agreements are under the Standard Plan.

The 75% Refundable Plan offers a refund at the time of a resident's death of seventy-five percent (75%) of the entrance fee paid. Refund provisions based upon cancellation of the agreement by the resident are the same as in the other contracts. Currently, only three residents are under the 75% Refundable Plan.

If, in consultation with a resident's family, physician and the facility administrator, it is determined that a resident is unable to care for him or herself within the range of services provided by the non-assisted living portion of the Retirement Center or becomes a danger to him or herself or others, as defined by the regulations promulgated by Social Services, such resident will be transferred to either the Assisted Living Unit, the Dementia Unit or the Skilled Nursing Facility. If insufficient beds are available in the Skilled Nursing Facility, the Corporation will arrange to place the resident in another facility in San Diego County at no additional cost to the resident until space becomes available in the Skilled Nursing Facility. When transferred on a permanent basis to either the Assisted Living Unit, the Dementia Unit or the Skilled Nursing Facility, and assuming there is no other party (such as a spouse) to the Residence Agreement, the resident's unit will become available to a new resident. Should the resident recover sufficiently at a later date to resume unassisted living, the Corporation is required to provide a like or similar unit to the resident.

Legacy Resident Agreements

Between 1994 and 1996, residents had the option of a "Standard Modified Plan Contract." Under the Standard-Modified Plan Contract, refunds are made as disclosed in the discussion of the Standard Plan, with the exception that a resident's estate receives the refund upon death of a resident during the initial seven and one-half years (90 months) of residency. Currently, only one resident is under the Standard-Modified Plan.

Between 1988 and 1992, residents had the option of a "94 Plan." This contract called for 94% of the entrance fee to be refunded upon the resident's death. Although no longer available to new residents, one resident is currently under the 94 Plan.

Between 1988 and 2003, residents had the option of a 80% Refundable Plan. This contract called for 80% of the entrance fee to be refunded upon the resident's death. Although no longer available to new residents, three residents are currently under the 80% Refundable Plan.

Between 1988 and 1996, residents had the option of a 50% Refundable Plan. This contract called for 50% of the entrance fee to be refunded upon the resident's death. Although no longer available to new residents, one resident is currently under the 50% Refundable Plan.

HISTORICAL UTILIZATION

The following table provides occupancy statistics for the Facilities.

	Fiscal Year Ended July 31,			Five Months Ended
	2005	2006	2007	December 31, 2007
Retirement Center:[1]				
Average available units	421	421	421	421
Average occupied units	412	406	404	407
Average occupancy	97.9%	96.5%	96.0%	96.7%
Dementia Unit: [2]				
Average available units	--	15.75	27	27
Average occupied units	--	12.6	14.3	19
Average occupancy	--	80%	53%	70.4%
Skilled Nursing Facility:				
Licensed Beds	99	99	99	99
Available Beds	99	99	99	99
Occupied Beds	83.4	76.7	74.5	71.4
Average Occupancy[3]	84.2%	77.5%	75.3	72.1%

(1) Includes the Assisted Living Unit beds available billed at current standard rates.
(2) Commenced operations in December 2005.
(3) Based on available units/beds.

Source: The Corporation

LICENSURE, ACCREDITATION AND MEMBERSHIPS

The Retirement Center, including the Assisted Living Unit and the Dementia Unit, are licensed by the State of California Department of Social Services ("Social Services") as a residential care facility for the elderly ("RCFE"). The basis for this licensure is Social Services' determination that the Retirement Center, including the Assisted Living Unit and the Dementia Unit, has complied with specific requirements of California law related to RCFEs. The Skilled Nursing Facility is licensed by the California Department of Health Services ("Health Services") as a skilled nursing facility. The basis for this licensure is Health Services' determination that the Skilled Nursing Facility has complied with California laws relating to skilled nursing facilities.

The Corporation has received a certificate of authority ("COA") issued by Social Services, Continuing Care Contracts Branch. A COA permits the Corporation to enter into continuing care contracts, defined by the State of California as an express or implied agreement between a person 60 years of age or older and the provider where, in exchange for payment of an entrance fee and/or periodic charges, a promise is made to provide one or more elements of care at a facility for the duration of the resident's life or a period longer than one year. The Corporation must submit annual audited

financial statements, reserve reports and key indicators reports to Social Services to maintain its COA. In addition, every fifth year, an actuarial report must be completed to ensure adequate reserves. For more information on COAs, see "THE RETIREMENT INDUSTRY" in the forepart of this Official Statement.

The Corporation is a member of the Aging Services of California and the American Association of Homes and Services for the Aging.

MARKET AND COMPETITION

Approximately 61% of the Corporation's current residents originated from the area within a ten-mile radius of the Facilities, and approximately 80% lived within San Diego or Orange County. The Corporation identifies five facilities as its primary competitors. Competition may increase in the future with the construction of new facilities or the expansion of existing facilities. The following table sets forth certain relevant information regarding the Corporation's Facilities and those six competing facilities. The information in the table below was gathered by the Corporation through a telephone survey and sources that the Corporation believes to be accurate. The Corporation takes no responsibility for the accuracy or completeness of the information contained in the table below.

Name and Location[1] of Facility	Distance from Casa de las Campanas	Type of Facility	2006 Occupancy[2]
Casa de las Campanas, Rancho Bernardo, CA	--	Continuing Care	96%
Redwood Terrace, Escondido, CA	4 miles	Continuing Care	95
Classic Residence by Hyatt at La Jolla Village, La Jolla, CA	19 miles	Continuing Care	100
La Costa Glen, Carlsbad, CA	20 miles	Continuing Care	100
Carlsbad-by-the Sea, Carlsbad, CA	24 miles	Continuing Care	99
White Sands of La Jolla, La Jolla, CA	26 miles	Continuing Care	96

(1) Although the Remington Club in Rancho Bernardo and La Jolla Village Towers in La Jolla are also senior residential facilities located near the Facilities, they are currently month-to-month rental facilities, not continuing care facilities, and the Corporation does not consider them to be significant competitors.

(2) Does not include skilled nursing occupancy, if any.

Source: The Corporation

SELECTED FINANCIAL INFORMATION

Summary Statement of Activities and Changes in Net Assets

The following is a summary statement of activities and changes in net assets of the Corporation for the years ended July 31, 2005, 2006 and 2007, derived from the supplemental information attached to the audited combined financial statements of the Corporation for such periods, and for the five-month periods ended December 31, 2006 and 2007, derived from the unaudited financial statements of the Corporation for such periods, and includes all adjustments that management considers necessary to present such information in conformity with generally accepted accounting principles. The results of operations for the five months ended December 31, 2007 are not necessarily indicative of the operating results to be expected for the entire year ending July 31, 2008. The data set forth in the following table should be read in conjunction with the audited combined financial statements of the Corporation included as Appendix B to this Official Statement.

SUMMARY STATEMENTS OF UNRESTRICTED REVENUE, EXPENSES AND OTHER CHANGES IN UNRESTRICTED NET ASSETS

	Fiscal Year Ended July 31,			Five Months Ended December 31,	
	2005	2006	2007	2006	2007
				(unaudited)	
CHANGES IN UNRESTRICTED ASSETS:					
REVENUES, GAINS AND OTHER SUPPORT:					
Resident fees earned	$24,615,888	$25,414,355	26,718,360	11,371,873	12,230,123
Investment income	846,885	986,578	967,018	393,765	1,724,404
Realized gains on sale of securities	637,299	449,058	1,198,287	347,294	(828)
Net assets released from restrictions, used for operations	--	--			
Contributions	2,946,489	370,518	602,198	382,949	319,266
Total revenues, gains and other support	$29,046,561	$27,220,509	$29,485,863	$12,495,880	$14,221,614
OPERATING EXPENSES:					
Resident services	$ 800,171	$ 762,129	$ 804,484	339,428	334,083
Health center	4,684,631	4,655,925	4,544,340	1,864,642	1,957,227
Assisted living	1,005,599	1,432,576	1,758,831	701,650	507,019
Home health	35,247	270,572	357,511	188,417	133,994
Plant and maintenance	3,061,825	3,551,869	3,735,925	1,570,808	1,512,647
Housekeeping and laundry	1,362,874	1,481,693	1,557,873	657,322	651,978
Food and beverage	4,496,305	4,634,671	4,750,764	1,947,145	2,091,048
Donation expense					
General and administrative	3,489,005	3,553,139	3,894,490	1,482,329	1,511,037
Depreciation and amortization	2,948,744	3,766,775	3,903,536	1,572,189	1,852,534
Interest expense	1,838,597	1,740,358	1,826,463	679,384	1,078,404
Total operating expense	$23,722,998	$25,849,707	$27,134,217	$11,003,314	$11,920,642
Income from operations	$ 5,323,563	$ 1,370,802	$ 2,351,616	$1,492,566	$2,300,972
NONOPERATING (EXPENSES)	(124,817)	9,726	(152,362)	33,424	45,590
Excess of revenues over expenses	$ 5,198,746	$ 1,380,528	$ 2,199,284	$1,525,989	
NET UNREALIZED GAIN ON INVESTMENTS	1,745,582	532,349	1,196,429	570,374	(376,613)
LOSS ON EARLY RETIREMENT OF LONG TERM DEBT			(549,979)	-	-
CHANGE IN NET UNREALIZED GAIN ON DERIVATIVE INSTRUMENTS			578,316	-	(1,487,965)
NET ASSETS RELEASED FROM RESTRICTIONS, USED FOR CAPITAL EXPENDITURES					
Increase (decrease) in unrestricted net assets	$ 6,944,328	$ 1,912,877	$ 3,424,050	$2,096,364	$481,984

Sources of Revenues

For the fiscal year ended July 31, 2007, approximately 94% of total revenues (exclusive of unrealized gains/losses on investments) of the Corporation were derived from earned entrance fees, monthly service fees and investment income. Entrance fees are considered "earned" only to the extent that they are (i) net of the portion thereof that is refundable to a resident and (ii) amortized to income for the present year using the straight-line method over the estimated remaining life expectancy of the resident. Approximately 16% of the total revenues were derived from the Skilled Nursing Facility, of which approximately 74% (or approximately 12% of total revenues) were derived from non-resident patients covered by private insurance or responsible for payment. Management anticipates that earned entrance fees and monthly fees paid by residents will continue to be the largest source of revenues for the Corporation.

Prior to August 1997, the Corporation invested all of its funds available for investment (other than restricted debt service funds) in government and investment grade corporate bonds and cash. In August 1997, in an effort to maximize long-term returns on investments, the Corporation revised its investment strategies for certain funds to permit investments in a highly diversified, no-load portfolio of publicly traded equity and fixed income mutual funds. These investments now total approximately $27,982,000 of excess reserve funds as of July 31, 2007. Market value equity securities are subject to changes in the stock market, which may cause the Corporation's reserves to fluctuate from period to period or suffer a permanent reduction in value.

The Corporation was certified as a Medicare provider effective February 24, 1989. The certification to be a Medicare provider is subject to annual renewal. The current certificate is effective until February 23, 2008. The income and asset levels of the residents of the Facilities are not expected to permit them to qualify for Medi-Cal. Currently, the Corporation is not qualified to receive reimbursement from the State of California for the care of Medi-Cal eligible patients. The Corporation is a party to other third party payor contracts with entities other than Medicare, but management does not expect revenues derived from such contracts to constitute material portion of the Corporation's revenues, as these revenues currently represent 12% of the Corporation's revenues.

The following table sets forth the sources of revenue for the Skilled Nursing Facility for each of the three fiscal years in the period ended July 31, 2005, 2006 and 2007 and the five months ended December 31, 2007.

	Fiscal Year Ended July 31,			Five Months Ended December 31, 2007
	2005	2006	2007	
Private	33.4%	31.8%	29.0%	23.3%
Life Care Revenues – Casa Resident Contracts	24.2%	25.8%	26.2%	29.6%
Medicare A	29.0%	33.6%	37.4%	36.0%
Medicare B	2.7%	1.8%	1.5%	1.1%
Other Insurance	0.5%	0.5%	0.5%	-
Managed Care (HMO)	10.0%	6.0%	4.4%	9.3%
Hospice	0.2%	0.5%	1.0%	0.7%
Total	100%	100%	100%	100%

Fundraising

In July 1994, the Corporation formed Casa Foundation, Inc., a California nonprofit public benefit corporation (the "Foundation"), to provide charitable fund raising services and other constituency services for the exclusive support of the charitable purposes of the Corporation, in providing housing, care and services for the elderly. The Foundation is governed by a 5-member Board of Directors (the "Foundation Board"), which is elected annually. Three Foundation Board members must be members of the Corporation Board of Directors and two Foundation Board members must be residents in good standing of the Facilities. Funds received by the Foundation are distributed to the Corporation as determined by the Foundation Board. During the fiscal year ended July 31, 2007, the Foundation raised approximately $493,000 and distributed approximately $602,000 to the Corporation, compared to the fiscal year ended July 31, 2006 during which the Foundation raised approximately $452,867 and distributed approximately $370,518 to the Corporation. While the Foundation's assets, liabilities, net assets and results of activities are included in the combined financial statements of the Corporation set forth in Appendix B to this Official Statement, the Foundation is not obligated to make payments with respect to the Bonds.

Capitalization

The table below presents a summary of the capitalization of the Corporation as of July 31, 2007, and which reflect the prior issuance of the Bonds and the prior defeasance of the 1998 Bonds with certain of the proceeds of the Bonds.

	July 31, 2007
Long-Term Debt:	
The Bonds	$45,645,000
Other Long-Term Debt[1]	137,626
Total Long-Term Debt	$45,782,626
Unrestricted Net Assets (Deficit)	21,304,229
Total Capitalization	67,086,855
Total Long-Term Debt as a Percentage of Total Capitalization	68.2%

(1) Includes long-term portion of capital leases.

Source: The Corporation.

Debt Service Coverage and Days Cash on Hand

The following tables presents the debt service coverage ratios and days cash on hand for the Corporation for the fiscal years ended July 31, 2005, 2006 and 2007.

Debt Service Coverage

	Fiscal Year Ended July 31,		
	2005	2006	2007
Excess of Revenue Over Expenditures	$ 5,198,746	$ 1,380,528	$2,199,284
Plus: Interest Expense	1,838,597	1,740,358	1,826,463
Plus: Depreciation Expense	2,908,196	3,726,226	3,870,390
Plus: Amortization Expense	40,548	40,548	33,146
Plus: Provision for Bad Debts	101,940	24,381	276,829
Less: Amortization of Deferred Revenue	(6,378,429)	(6,288,150)	(7,063,536)
Plus Net Proceeds from Entrance Fees	7,765,334	7,970,349	10,480,199
CASH AVAILABLE FOR DEBT SERVICE	$11,474,932	$8,594,240	$11,622,775
ANNUAL DEBT SERVICE[(1)]	$3,965,475	$3,785,224	$4,646,657
DEBT SERVICE COVERAGE RATIO	2.89	2.27	2.50

(1) Includes Series 1998 Bonds and capital leases.

Source: The Corporation.

Days Cash on Hand

	As of July 31,		
	2005	2006	2007
Current Cash & Investments – Unrestricted	$ 2,338,374	$ 1,245,792	$2,319,671
Non-Current Cash & Investments – Unrestricted	15,549,492	10,811,598	27,981,907
Total Unrestricted Cash & Investments	17,887,866	12,057,390	30,301,578
Cash Operating Expenses	20,672,314	22,058,552	23,230,681
Average Daily Cash Expenses	56,636	60,434	63,646
Days Cash on Hand Ratio	315.84	199.51	476.1

Source: The Corporation.

Management's Discussion of Financial Performance

Operating Results for the Years Ended July 31, 2005 and 2006. The Corporation's total unrestricted revenues, gains and other support for the year ended July 31, 2006 decreased by $1,826,052 from the year ended July 31, 2005. This decrease was primarily due to a decrease in Contributions of

approximately $2.6 million, from $2,946,489 for the year ended July 31, 2005 to $370,518 for the year ended July 31, 2006. However, resident and net patient service revenues increased by approximately $798,467, from $24,615,888 for the year ended July 31, 2005 to $25,414,355 for the year ended July 31, 2006, due primarily to an increase in monthly service fees and higher Medicare occupancy in the Health Center. Investment income increased by approximately $139,693, from $846,885 for the year ended July 31, 2005 to $986,578 for the year ended July 31, 2006 due to increased dividends and interest income.

The Corporation's operating expenses increased $2,126,709, from $23,722,998 for the year ended July 31, 2005 to $25,849,707 for the year ended July 31, 2006, due primarily to a $426,977 increase in expenses primarily due to the new Dementia Unit and other costs associated with the assisted living facility, a $235,325 increase in expenses associated with the new home health program and an increase in Plant and Maintenance expenses of approximately $490,044 primarily due to utilities. These were offset primarily by a decrease in interest expense of approximately $98,239 due primarily to the retirement of long-term debt.

The Corporation's unrestricted revenues, gains and other support exceeded operating expenses by approximately $1,370,802 for the year ended July 31, 2006, compared to an excess of operating revenues over operating expenses of approximately $5,323,563 for the year ended July 31, 2005. The Corporation's increase in unrestricted net assets of approximately $1,912,877 included an unrealized gain on investments for the year ended July 31, 2006 of $532,349, compared to an unrealized gain of approximately $1,745,582 for the year ended July 31, 2005.

Operating Results for the Years Ended July 31, 2006 and 2007. The Corporation's total unrestricted revenues, gains and other support for the year ended July 31, 2007 increased by $2,265,354. This increase was primarily due resident revenues and realized investments gains. Resident and net patient service revenues increased by approximately $1,304,005, from $25,414,355 for the year ended July 31, 2006 to $26,718,360 for the year ended July 31, 2007, due primarily to an increase in monthly service fees. Realized Investment Gains increased by approximately $749,229, from $449,058 for the year ended July 31, 2006 to $1,198,287 for the year ended July 31, 2007.

The Corporation's operating expenses increased $1,284,510, from $25,849,707 for the year ended July 31, 2006 to $27,134,217 for the year ended July 31, 2007, primarily due to inflation pressures that also affected wage and benefits.

The Corporation's unrestricted revenues, gains and other support exceeded operating expenses by approximately $2,351,646 for the year ended July 31, 2007, compared to an excess of operating revenues over operating expenses of approximately $1,370,802 for the year ended July 31, 2006. The Corporation's increase in unrestricted net assets of approximately $3,424,050 included an unrealized gain on investments for the year ended July 31, 2007 of $1,196,429, compared to an unrealized gain of approximately $532,349 for the year ended July 31, 2006.

Operating Results for the Five Months Ended December 31, 2006 and 2007. The Corporation's total unrestricted revenues, gains and other support for the five month period ended December 31, 2007 increased by $1,725,734. This increase was primarily due resident revenues and interest & dividend investments income. Resident and net patient service revenues increased by approximately $866,261, from $11,371,873 for the period ended December 31, 2006 to $12,238,134 for the year ended December 31, 2007, due primarily to an increase in monthly service fees. Interest & Dividend Investment Income increased by approximately $1,271,278, from $393,765 for the period ended December 31, 2006 to $1,665,042 for the period ended December 31, 2007. However, these increases were offset by a Realized Loss in Investments in December 31, 2007 with a decrease of $348,122 from the prior year.

The Corporation's operating expenses increased $917,328, from $11,003,314 for the period ended December 31, 2006 to $11,920,642 for the period ended December 31, 2007, primarily due to inflation pressures that also affected wage and benefits.

The Corporation's unrestricted revenues, gains and other support exceeded operating expenses by approximately $2,300,972 for the period ended December 31, 2007, compared to an excess of operating revenues over operating expenses of approximately $1,492,566 for the period ended December 31, 2006 primarily due to increased interest and dividend income. The Corporation's increase in unrestricted net assets of approximately $481,984 included an unrealized loss on investments for the period ended December 31, 2007 of $376,613, compared to an unrealized gain of approximately $570,374 for the period ended December 31, 2006.

Liquidity and Investment Policy

The Corporation's liquidity position (composed of cash equivalents, short-term investments and long-term investments) as of July 31, 2007 was $47,820,238 and as of December 31, 2007 was $47,843,041. The Corporation's liquid cash and investments are managed according to an investment policy adopted by the Board of Directors.

Investment earnings and realized gains on sales of securities constitute a portion of the Corporation's total operating revenue. Due to variations in market performance as well as timing of the sale of securities, the level of investment earnings and realized gains reflected in the Corporation's statement of operations might vary significantly from year to year.

Swap Agreements

In connection with the issuance of the Series 2007 Bonds, the Corporation entered into four interest rate exchange agreements. (collectively, the "Swap Agreements") with Morgan Stanley Capital Services Inc. and KBC Bank N.V. (collectively, the "Counterparties"). The obligation of the Corporation to make scheduled payments under the Swap Agreements, as well as certain payments due upon the termination of the Swap Agreements prior to the stated termination date thereof, is secured by Radian Asset Assurance Inc. pursuant to a swap insurance policy. In addition, concurrently with the issuance of Obligation No. 1, the Corporation will issue Obligation No. 3 to secure the Corporation's obligations to make certain scheduled payments (and not termination payments) required under the Morgan Stanley Swap Agreements and Obligation No. 4 to secure the Corporation's obligations to make certain scheduled payments (and not termination payments) required under the KBC Swap Agreements.

Budget Process

The Corporation is managed under a budgetary plan adopted each year by its Board of Directors. Department directors prepare management plans and operational budgets with detailed input from other members of the staff. Senior management, with input from the Resident Finance Committee and Resident Executive Council, recommends the final budget that is presented to the Board of Directors for approval.

The budgeting process begins each January with the establishment of a budget timetable, budget process and service demand projections. The budget is completed and presented to the Board of Directors for approval by June each year, for implementation at the beginning of the next fiscal year. Senior management meets regularly to review operational performance and plan corrective actions as necessary.

INSURANCE MATTERS

The Corporation is insured for comprehensive liability, including corporate, general, commercial property, automobile, umbrella, boiler and machinery, crime, and professional liability, under a combination of commercial insurance policies with American Home Assurance, Lexington Insurance, Mt. Hawley Insurance Co., National Union, National Union Fire Insurance, and St. Paul Travelers, with limits and excess coverage that management considers adequate and similar to those of other comparable facilities. Insurance does not provide coverage for judgments for punitive damages. The Corporation is self-insured for workers' compensation claims beginning the year ended July 31, 2004 up to a maximum of $250,000 per occurrence. Self-insured losses are accrued based on the Corporation's estimates of the aggregate liability for uninsured claims incurred using the Corporation's experience resulted in a worker's compensation receivable of approximately $1,437,000 at July 31, 2007 and 2006 and in included in other receivables and other assets in the accompanying consolidated statements of financial position. The Corporation also maintains earthquake insurance for the Facilities with a limit of $10 million through July 31, 2008. In addition, the Corporation maintains directors' and officers' liability coverage through the National Union Fire Insurance Co. of up to $5 million. While the Corporation considers the Corporation's insurance coverage to be adequate, the Corporation is unable to predict the availability or cost of such insurance in the future.

CORPORATION GOVERNANCE

Pursuant to the Corporation's bylaws, control of the Corporation is vested in a Board of Directors consisting of 7 members. Directors are eligible to serve up to three consecutive three-year terms. The Directors may receive such compensation as may be determined by the Board.

The Board of Directors of the Corporation currently consists of the following persons:

Name	Position	Occupation	Term Expires (November)
Stephen Riddle		Retired, Corporate Bank VP	2010
James J. Beeman	Secretary	Retired, Corporate VP	2010
William J. Carlson	Vice-Chair	Retired, Construction VP	2009
Eileen Haag	Chairman	Communications Consultant	2009
Dr. Donald G. Haught		School Administration & HR Management Consultant	2009
Robin Jensen		CFO – Long Term Care	2011
Dr. Patricia Schmidt		Retired, Nursing Professor	2011
Ronald C. Stinson		Retired, Energy\Utility Consultant	2011
Robert W. Trettin		Consultant	2009

MANAGEMENT AGENT

The Facilities currently are managed by LCS pursuant to a management agreement (the "Management Agreement") between LCS and the Corporation. LCS is an Iowa for profit limited liability company with administrative headquarters in Des Moines. In addition to managing the Facilities, LCS manages approximately 75 other continuing care retirement communities, skilled nursing facilities and assisted living facilities nationwide and operates Medicare-certified home health agencies. LCS is not required to advance any of its funds (and does not advance funds) to cover any operating deficits of the facilities it manages, including the Facilities. LCS has been in the business of owning and/or managing continuing care retirement facilities similar to the Facilities for over 46 years.

LCS has been managing the Facilities since January 1, 1997. The term of the current Management Agreement commenced on August 1, 2006, and will be effective through July 31, 2009. Pursuant to the terms of the Management Agreement, LCS provides technical and advisory assistance for all operations of the Facilities; participates in and renders advice and assistance with respect to the marketing of units in the Retirement Center; prepares budget information, periodic financial statements and the various certifications and reports required under the Loan Agreement; and performs the normal business functions and otherwise operates and manages the business affairs of the Corporation with respect to the Facilities, all subject to the control and supervision of the Corporation's Board of Directors. For services performed under the Management Agreement, LCS will receive monthly fees consisting of a fixed management fee of $40,000 per year 1, $42,500 year 2 and $45,000 year 3 until the expiration or earlier termination of the Management Agreement, plus certain annual incentive compensation to be determined by an evaluation of a combination of various factors, including resident satisfaction, Facilities census, and operating expense reduction; provided, however, that the incentive compensation paid for each of the fiscal years may not exceed $50,000. For the fiscal year ended July 31, 2007, LCS earned $25,000 in incentive fees.

EMPLOYEES

As of November 30, 2007, approximately 303 full-time equivalent ("FTE") employees were employed at the Facilities. This total included 238 FTEs at the Retirement Center, including the Assisted Living Unit and the Dementia Unit, and 65 FTEs at the Skilled Nursing Facility. All of the FTEs at the Facilities are Corporation employees with the exception of the three senior management staff, who are LCS employees.

The Corporation provides compensation and a range of fringe benefits to its employees that management believes are competitive. Currently, none of the Corporation's employees is represented by a union and management is unaware of any union organizing activity at the Facilities. Management regards its relations with all employee groups as good, based on recurring employee surveys.

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APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS OF CASA DE LAS CAMPANAS, INC.

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CASA DE LAS CAMPANAS

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JULY 31, 2007 AND 2006

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KELLOGG & ANDELSON
ACCOUNTANCY CORPORATION

To the Members of the
Audit Committee
Casa de las Campanas
Rancho Bernardo, California

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of Casa de las Campanas (a nonprofit California corporation) as of July 31, 2007 and 2006, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Casa de las Campanas' management. Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Casa de las Campanas as of July 31, 2007 and 2006, 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.

Kellogg + Andelson

November 1, 2007

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

14724 VENTURA BOULEVARD SECOND FLOOR, SHERMAN OAKS, CALIFORNIA 91403
PHONE (818) 971-5100 FAX (818) 971-5155 WWW.K-A.COM

CASA DE LAS CAMPANAS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JULY 31, 2007 AND 2006

ASSETS

	2007	2006
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,323,977	$ 1,045,047
Assets whose use is limited or restricted, required for current liabilities	3,390,993	3,277,259
Short-term investments	-	218,123
Accounts receivable, net of allowance for doubtful accounts of $266,290 and $75,440, respectively	917,899	872,474
Prepaid expenses and other current assets	753,698	1,363,137
Contributions receivable	233,958	233,300
Other receivables	1,120,437	988,299
Total current assets	8,740,962	7,997,639
ASSETS WHOSE USE IS LIMITED OR RESTRICTED, less amounts classified as current	16,678,752	19,438,921
LONG-TERM INVESTMENTS	27,981,907	12,028,573
PROPERTY, BUILDINGS, AND EQUIPMENT, net	67,701,960	65,706,656
DERIVATIVE INSTRUMENT ASSETS	578,316	-
DEFERRED FINANCING FEES, net	1,836,954	567,682
OTHER ASSETS	799,942	799,942
Total assets	$ 124,318,793	$ 106,539,413

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 2,631,456	$ 3,206,867
Interest payable	160,519	866,319
Deposits from residents	909,734	812,120
Current portion of obligations under capital leases	49,621	39,454
Current portion of obligations under gift annuity contracts	362,339	343,877
Current portion of estimated refundable entrance fees	644,130	755,151
Current portion of long-term debt	-	2,185,000
Total current liabilities	4,757,799	8,208,788
OBLIGATIONS UNDER CAPITAL LEASES, net of current portion	137,626	49,719
OBLIGATIONS UNDER GIFT ANNUITY CONTRACTS, net of current portion	1,870,825	1,861,200
ESTIMATED REFUNDABLE ENTRANCE FEES, net of current portion	3,162,866	2,561,855
DEFERRED REVENUE, Pooled Income Funds	131,878	155,388
LONG-TERM DEBT, net of current portion	45,645,000	30,922,041
DEFERRED REVENUE FROM ENTRANCE FEES	44,865,238	42,578,165
Total liabilities	100,571,232	86,337,156
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS:		
Unrestricted	21,304,229	17,880,179
Temporarily restricted	947,131	990,135
Permanently restricted	1,496,201	1,331,943
Total net assets	23,747,561	20,202,257
Total liabilities and net assets	$ 124,318,793	$ 106,539,413

The accompanying notes are an integral part
of the consolidated financial statements

CASA DE LAS CAMPANAS
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JULY 31, 2007 AND 2006

	2007	2006
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES, GAINS AND OTHER SUPPORT:		
Resident fees earned, including amortization of deferred revenues from non-refundable entrance fees of $6,310,462 and $5,503,751, respectively	$ 26,718,360	$ 25,414,355
Investment income	1,007,219	1,030,322
Realized gains on sale of investments	1,236,691	475,801
Net assets released from restrictions, used for operations	298,123	158,766
Contributions	102,354	228,290
Total revenues, gains and other support	29,362,747	27,307,534
OPERATING EXPENSES:		
Resident services	804,484	762,129
Health center	4,544,340	4,655,925
Assisted living	1,758,831	1,432,576
Home health	357,511	270,572
Plant and maintenance	3,735,925	3,551,869
Housekeeping and laundry	1,557,873	1,481,693
Food and beverage	4,750,764	4,634,671
Donation expense	62,330	-
General and administrative	4,013,220	3,722,735
Depreciation and amortization	3,903,796	3,767,461
Interest expense	1,826,463	1,740,358
Total operating expenses	27,315,537	26,019,989
Income from operations	2,047,210	1,287,545
NONOPERATING REVENUE (EXPENSES)	(152,362)	9,726
Excess of revenues over expenses	1,894,848	1,297,271
NET UNREALIZED GAINS ON INVESTMENTS	1,251,631	535,610
LOSS ON EARLY RETIREMENT OF LONG TERM DEBT	(549,979)	-
CHANGE IN VALUE OF GIFT ANNUITY CONTRACTS	51,328	(12,183)
CHANGE IN NET UNREALIZED GAIN ON DERIVATIVE INSTRUMENTS	578,316	-
NET ASSETS RELEASED FROM RESTRICTIONS, USED FOR CAPITAL EXPENDITURES	197,906	92,179
Increase in unrestricted net assets	3,424,050	1,912,877
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	391,003	204,563
Investment income	12,313	11,750
Realized (losses) on sale of investments	(52)	(31)
Net unrealized (losses) on investments	340	(2,995)
Net assets released from restrictions, used for operations	(280,199)	(143,706)
Net assets released from unrestricted to temporarily restricted	542	-
Net assets released from restrictions, used for capital expenditures	(197,906)	(92,179)
Change in value of charitable remainder trusts and pooled income funds	30,955	(29,222)
(Decrease) in temporarily restricted net assets	(43,004)	(51,820)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	14	20,014
Investment income	9,529	11,453
Realized gains on sale of investments	14,842	11,145
Net unrealized gains on investments	26,314	3,389
Changes in value of gift annuity contracts	131,483	6,738
Net assets released from restrictions, used for operations	(17,924)	(15,060)
Increase in permanently restricted net assets	164,258	37,679
Increase in net assets	3,545,304	1,898,736
NET ASSETS BEGINNING OF YEAR	20,202,257	18,303,521
NET ASSETS END OF YEAR	$ 23,747,561	$ 20,202,257

The accompanying notes are an integral part of the consolidated financial statements

CASA DE LAS CAMPANAS
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents and third party payors	$ 19,593,300	$ 19,290,123
Proceeds from entrance fees	10,480,199	8,302,349
Unrestricted contributions	102,354	228,291
Investment income received	1,007,219	1,030,322
Cash paid to suppliers and employees	(21,247,548)	(20,706,598)
Cash paid for interest on long-term debt and capital lease obligations	(2,411,479)	(1,792,739)
Cash paid for interest on resident deposits	(23,432)	(4,185)
Net cash provided by operating activities	7,500,613	6,347,563
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,924,008)	(9,737,147)
Proceeds from sale of property, buildings, and equipment	-	37,700
Redemptions of investments	17,164,610	12,559,889
Purchases of investments	(27,664,848)	(7,238,640)
Net cash (used in) investing activities	(16,424,246)	(4,378,198)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Refunds of entrance fees	(639,600)	(332,000)
Refunds of resident deposits	79,250	(73,350)
Principal payments on obligations under capital leases	(50,178)	(41,878)
Proceeds from issuance of bonds	45,645,000	-
Bond issuance costs	(1,852,393)	-
Principal payments on long-term debt	(33,100,770)	(2,085,000)
Restricted contributions and investment (loss)	121,254	(14,142)
Net cash provided (used in) financing activities	10,202,563	(2,546,370)
NET CHANGE IN CASH AND CASH EQUIVALENTS	1,278,930	(577,005)
CASH AND CASH EQUIVALENTS, beginning of year	1,045,047	1,622,052
CASH AND CASH EQUIVALENTS, end of year	$ 2,323,977	$ 1,045,047
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in net assets	$ 3,545,304	$ 1,898,736
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,903,796	3,767,461
Non-cash contributions	-	(44,293)
Amortization of entrance fees	(6,310,462)	(5,503,751)
Forfeited entrance fees	(753,074)	(795,399)
Proceeds from entrance fees	10,480,199	8,302,349
Amortization of bond premium	(6,271)	(8,382)
Loss on disposal of equipment	206,303	63,062
Loss on early retirement of debt	549,979	-
Realized (gain) on sale of investments	(1,251,481)	(486,915)
Unrealized (gain) on derivative instruments	(578,316)	-
Unrealized (gain) on investments	(1,278,285)	(537,004)
Restricted contributions and investment (loss)	(121,254)	14,142
Change in value of charitable remainder trusts and pooled income funds	(30,955)	29,222
Change in the value of gift annuity contracts	(51,328)	(12,183)
Changes in operating assets and liabilities:		
Accounts receivable, net	(45,425)	163,918
Prepaid expenses and other current assets	609,439	145,482
Contributions receivable	(658)	(34,406)
Other receivables	(132,138)	(329,894)
Other assets	-	-
Accounts payable and accrued expenses	(575,411)	(182,596)
Interest payable	(705,800)	(48,215)
Deposits from residents	18,364	(30,551)
Obligations under gift annuity contracts	28,087	(23,220)
Net cash provided by operating activities	$ 7,500,613	$ 6,347,563
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Equipment purchased under capital leases	$ 148,252	$ -
Donated equipment	$ -	$ 44,293

The accompanying notes are an integral part of the consolidated financial statements

NOTE 1 - DESCRIPTION OF BUSINESS

Casa de las Campanas was incorporated on September 19, 1990 as a California nonprofit corporation for the purposes of constructing, owning and operating a continuing care retirement community. The facilities include 394 independent living units, an 18 unit assisted living unit with a capacity of 26 beds, an 18 unit demetia/assisted living unit with a capacity of 27 beds, and an adjacent 99 bed skilled nursing facility. Casa provides housing, health care and other related services to the elderly honoring their dignity and promoting independence.

Casa operates under the "continuing care" concept whereby residents enter into agreements that require payment of a one-time entrance fee and a monthly service charge. Generally, these payments will entitle residents to the use and privileges of the facility for life. The residence agreement does not entitle the residents to an ownership interest in the property.

Casa Foundation (the "Foundation"), a California non-profit public benefit corporation, was established in 1994 to solicit contributions from the general public in support of Casa. The Foundation Board of Directors consists of five members, three of whom are also members of Casa Board of Directors, and the remaining two are Casa residents in good standing. Funds of the Foundation are distributed exclusively to Casa for the benefit of its residents as determined by the Foundation's Board of Directors. The Foundation's assets, liabilities, net assets, and results of activities are included in the accompanying consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Casa de las Campanas and Casa Foundation (collectively the "Organization"). All significant intercompany balances have been eliminated in consolidation. Presentation of financial statements follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117 *"Financial Statements of Not-for-Profit Organization."* Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted contributions are recognized as an increase in unrestricted net assets when received. Contributions restricted by the donors are reported as increases in temporarily or permanently restricted net assets depending on the nature of the donor-imposed restrictions. When restrictions are satisfied, either by the passage of time or by the accomplishment of purpose, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities and changes in net assets as net assets released from restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

Cash equivalents include certain highly liquid investments with original maturities of three months or less.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include (a) investments set aside by the donors for future capital improvements, (b) investments held by trustees and the Organization under bond indenture agreements, (c) investments set aside to comply with continuing care refund, debt service, operating expenses and insurance reserve requirements, (d) investments held in escrow accounts for subscription and wait list deposit obligations, and (e) net assets restricted by donors. These assets include cash and cash equivalents and investments in debt and equity securities, which are stated at fair value in the accompanying consolidated financial statements.

Investments

The Organization accounts for all its investments in accordance with SFAS No. 124, "*Accounting for Certain Investments Held by Not-for-Profit Organizations.*" As such, investments are measured at fair value in the consolidated statements of financial position. Investment income or losses (including interest, dividends, realized gains or losses and unrealized gains or losses on investments) are included in the consolidated statements of activities and changes in net assets.

Contributions Receivable

The Organization has adopted SFAS No 116, *"Accounting for Contributions Received and Contributions Made"*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions where donor restrictions are met within the same fiscal year as the contribution are included in unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value.

Property, Buildings, and Equipment

Property, buildings, and equipment are carried at historical cost, and depreciation and amortization is provided using the straight-line method over estimated useful lives as follows: buildings and improvements, 40 years; property under capital leases, 3 to 5 years; furniture and equipment, 3 to 15 years; and vehicles, 3 to 5 years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, Buildings, and Equipment - Continued

Impairment of long-lived assets is recognized whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Measurement of the amount of impairment may be based on market values or similar assets or estimates of future discounted cash flows resulting from use and ultimate disposition of the assets.

Deferred Financing Fees

Deferred financing fees include costs related to the issuance of long-term debt (see Note 8) and are being amortized over the term of the bonds issued of 30 years. Amortization expense related to deferred financing fees was $33,143 and $40,549 for the years ended July 31, 2007 and 2006, respectively, and is included in depreciation and amortization expense in the accompanying consolidated statements of activities and changes in net assets.

Deposits from Residents

Deposits from residents represent entrance fees received prior to occupancy and are accounted for as liabilities of Casa, as they are refundable in accordance with the terms of the residence agreements.

Estimated Refundable Entrance Fees

Estimated refundable entrance fees are recorded based on Casa's estimate of future refunds to current residents under the terms of the contracts in force and are based on current and historical refund experience.

Obligation to Provide Future Services

Casa annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 4.92% and 5.30% in 2007 and 2006, respectively, based on the expected long-term rate of return on government obligations. At July 31, 2007 and 2006, the present value of the net cost of future services and the use of facilities did not exceed deferred revenue from entrance fees. Consequently, a liability has not been recorded.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Entrance Fees

Fees paid by a resident upon entering into a continuing care retirement contract, net of estimated future refunds, are recorded as deferred revenue from entrance fees and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

Lump sum entrance fees are amortized to determine the amount of fees to be included in revenues, in the manner prescribed by Statement of Position (SOP) 90-8, issued by the American Institute of Certified Public Accountants. The amount to be included is calculated by dividing the unamortized entrance fee by the current life expectancy of each resident and summing the results for all residents. The Life Expectancy Tables as published in Section 1792.2 of the State of California Continuing Care Contract Statutes are used in making the above computations. The unamortized portion is shown in the balance sheet as deferred revenue. Entrance fees and the unamortized portion of entrance fees are summarized as follows:

	Total Entrance Fees	Unamortized Entrance Fees
Balance at July 31, 2005	$ 79,007,897	$ 44,223,972
Sale of contracts	8,302,349	8,302,349
Deceased residents	(3,340,825)	(797,019)
Resident withdrawals	(332,000)	(330,380)
Amortization of continuing care contracts	-	(5,503,751)
Balance at July 31, 2006	83,637,421	45,895,171
Sale of contracts	10,480,199	10,480,199
Deceased residents	(3,778,459)	(904,406)
Resident withdrawals	(328,029)	(488,268)
Amortization of continuing care contracts	-	(6,310,462)
Balance at July 31, 2007	$ 90,011,132	$ 48,672,234

The amount shown in the financial statements for unamortized entrance fees has been reduced by the amount set up as a liability for refunds of $3,806,996 and $3,317,006 at July 31, 2007 and 2006, respectively.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Resident Service Fees

Resident services fees are recorded net of the provision for contractual allowances. The contractual allowance represents the difference between established rates and per diem reimbursement.

Resident Assistance

Casa provides care to residents who meet certain criteria under its resident assistance program at amounts less than its established rates. Casa maintains records to identify and monitor the level of assistance it provides. Because Casa does not pursue collection of amounts determined to qualify as resident assistance, they are not reported as resident fees earned. The following summary represents the fees charged for such services for the years ended July 31, 2007 and 2006:

	2007	2006
Resident assistance	$ 179,740	$ 110,020

Split-Interest Agreements

The following instruments are recorded as income or net assets at the present value of Casa's beneficiary interest:

Charitable Remainder Trusts – The Foundation is the beneficiary of two charitable remainder trust agreements (the "Trusts"). The Trusts are irrevocable, and the beneficiary designation may not be changed. Upon the death of the beneficiaries, or other termination of the trusts as defined, the remaining trust assets become the property of the Foundation as stipulated in the trust agreements. The beneficial interest in the Trusts is recorded at the expected fair value to be received by the Foundation. The Foundation calculated the expected fair value using the fair value of the trust at year-end, discounted at a rate of 6.0% over the life expectancy of the Trusts beneficiaries. The change in fair value of the Trusts is reflected in the consolidated statements of activities and changes in net assets. All beneficial interest in charitable remainder trust are included in the accompanying consolidated statements of financial position under assets whose use is limited or restricted and are classified as long-term.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Split-Interest Agreements - Continued

Charitable Gift Annuities – Donors have contributed assets to Casa in exchange for a promise by Casa to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of such agreements, no trust exists as the assets are held by and the annual liability is an obligation of Casa. The contributed assets are recorded at fair market value on the date of receipt, and the liability obligation is recorded at the expected value of the annuity liability. The expected value of the annuity liability is calculated at the present value of the future annuity payments, discounted at a rate ranging from 5.6% to 6.2% over the life expectancy of the donor or the designated beneficiary, as defined in the Insurance Code of the state of California. These rates are based on the highest federal mid-term rate available over a three month period including the month of the gift. The change in fair value of the annuity liability is reflected in the consolidated statements of activities and changes in net assets. Casa is required to maintain a state mandated reserve to cover its gift annuity liability. For the years ended July 31, 2007 and 2006, the amount of the reserve was $2,233,164 and $2,205,077, respectively, and is included in the accompanying consolidated statements of financial position under assets whose use is limited or restricted.

Pooled Income Fund – The Foundation has formed one pooled income fund (the "Fund"). Donors have made irrevocable contributions of assets to the Fund in exchange for a promise by the Foundation to pay the actual income, as defined, earned on the donor's contribution for the remainder of the donor's or the donor's designated income beneficiary's lifetime. Upon the death of the donor or the designated income beneficiary, the value of his/her proportionate interest at the time reverts to the Foundation to be used for such purposes as the donor may have designated, or, if there was no designation, as the Foundation Board of Directors may determine. The assets of the pooled income fund are held and managed by an outside trustee who is responsible for investing the assets and making the quarterly income distributions to the beneficiaries. The contributed assets are recorded at fair market value on the date of receipt, and temporarily restricted contribution revenue is recorded at the present value of the fair value of assets received, discounted at a rate of 4.95% over the life expectancy of the donors or beneficiaries. The change in fair value of the contributed assets is reflected in the consolidated statements of activities and changes in net assets. The assets under the pooled income fund are included in the accompanying consolidated statements of financial position under assets whose use is limited or restricted.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Excess of Revenues Over Expenses

The accompanying consolidated statements of activities and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses include net unrealized gain or loss on investments, changes in value of gift annuity contracts, changes in net unrealized gain on derivative instruments, and net assets released from restrictions used for capital expenditures.

Income Taxes

Casa and Casa Foundation are nonprofit organizations under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar provisions for the state of California. Accordingly, no provision for income taxes has been made. Casa and Casa Foundation maintain its tax-exempt status through devoting its resources to meet the primary needs of aged persons, housing, health care, and financial security.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments and Concentrations of Credit Risk

The estimated fair value of financial instruments has been determined by the Organization using available market information and appropriate methodologies; however, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Organization could realize in a current market exchange. Certain of these financial instruments expose the Organization to market and credit risk and may, at times, be concentrated with certain counterparties or groups of counterparties.

The following methods and assumptions were used to estimate the fair value of certain financial instruments.

Cash and Cash Equivalents - Cash and cash equivalents consist principally of investments in short-term, interest-bearing instruments and are carried at cost plus accrued interest, which approximates fair value.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value of Financial Instruments and Concentrations of Credit Risk -Continued

Contributions Receivable - The fair value of contributions receivable, after allowances for uncollectible pledges, was determined by discounting the expected future cash flows by a risk-free rate of return for similar terms of pledges receivable.

Investments - Investments are recorded at fair value, based principally upon quoted market values.

Split-Interest Agreements - Trusts held by third parties consist of numerous arrangements in which a donor establishes and funds a trust administered by a third party other than the Organization. These trusts are recorded at the fair value of the net assets contributed to the trust for which the Organization has a beneficial interest.

Financial instruments that potentially subject the Organization to concentration of credits consist principally of cash and cash equivalents, investments, and accounts receivable. The Organization places its cash and cash equivalents and investments into several high-quality financial institutions. The Organization's customer base consists of a large number of customers. The Organization performs credit evaluations and writes off uncollectible amounts as they become known.

Interest Rate Swaps

Casa uses interest rate swaps as part of its overall debt management policy. Casa accounts for interest rate swaps in accordance with Statement of Financial Accounting Standards ("SFAS") No. 133, *"Accounting for Derivative Instruments and Hedging Activities,"* as amended. The Statement requires that all derivatives be carried at fair value and are included as non-current assets in Casa's consolidated statements of financial position (see Note 9). All of Casa's interest rate hedge instruments are designated as cash flow hedges.

New Accounting Pronouncements

In September 2006, FASB Statement 157, *"Fair Value Measurements"* ("SFAS 157") was issued. SFAS 157 established a framework for measuring fair value by providing a standard definition of fair value as it applies to assets and liabilities. SFAS 157, which does not require any new fair value measurements, clarifies that application of other accounting pronouncements that require or permit fair value measurements. The effective date for the Organization is January 1, 2008. The Organization is evaluating the impact of adopting SFAS 157 on its financial statements.

NOTE 3 - ASSETS WHOSE USE IS LIMITED OR RESTRICTED

Assets whose use is limited or restricted are available for the following purposes for the years ended July 31, are as follows:

	2007	2006
Held by Trustee under bond indenture	$ 3,009,162	$ 3,752,683
Held by Casa under bond indenture	1,684,920	4,034,985
Held by Casa for refund reserve requirements	4,996,037	4,898,076
Held by Casa for operating expense reserve requirements	3,457,803	3,430,168
Subscription and wait list deposits	3,390,993	3,277,259
Restricted by donors	875,643	703,353
Charitable gift annuities	2,233,164	2,205,077
Charitable remainder trusts	51,090	47,107
Pooled income fund	370,933	367,472
	20,069,745	22,716,180
Less: Amounts required for current liabilities	3,390,993	3,277,259
	$ 16,678,752	$ 19,438,921

NOTE 4 - INVESTMENTS

The composition of investments, recorded at fair value at July 31, is as follows:

	2007	2006
Cash and cash equivalents	$ 520,403	$ 762,805
Domestic – bond mutual funds	10,266,795	6,457,265
International – bond mutual funds	317,180	295,206
Domestic – equity mutual funds	17,308,214	10,569,501
International – equity mutual funds	8,431,383	4,904,559
Absolute return	3,625,866	2,055,431
U.S. Treasuries	3,781,456	4,647,660
Commodities	3,749,265	1,188,357
Guaranteed investment contract	-	4,034,985
Receivables due under charitable remainder trusts	51,090	47,107
	48,051,652	34,962,876
Less: Amounts classified as assets whose use is limited or restricted–current and non-current	20,069,745	22,716,180
	27,981,907	12,246,696
Less: Short-term investments	-	218,123
Long-term investments	$ 27,981,907	$ 12,028,573

NOTE 4 - INVESTMENTS - CONTINUED

The guaranteed investment contract represents investments administered by an independent professional investment company in a managed investment pool with a guaranteed specified rate of interest. Interest payments are due to the participant semiannually. The assets of the pool are invested in U.S. government obligations, corporate securities, taxable municipal securities, mortgage-backed securities, and mutual funds rated "AAA" by Standards and Poors and "AAa" by Moody's.

The composition of investment return for the years ended July 31, 2007 and 2006 are as follows:

	2007			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income	$ 1,007,219	$ 12,313	$ 9,529	$ 1,029,061
Realized gains (losses) on sale of investments	1,236,691	(52)	14,842	1,251,481
Net unrealized gains (losses) on investments	1,251,631	340	26,314	1,278,285
Total	$ 3,495,541	$ 12,601	$ 50,685	$ 3,558,827

	2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income	$ 1,030,322	$ 11,750	$ 11,453	$ 1,053,525
Realized gains (losses) on sale of investments	475,801	(31)	11,145	486,915
Net unrealized gains (losses) on investments	535,610	(2,995)	3,389	536,004
Total	$ 2,041,733	$ 8,724	$ 25,987	$ 2,076,444

NOTE 5 - PROPERTY, BUILDINGS, AND EQUIPMENT

Property, buildings, and equipment at July 31, 2007 and 2006 are as follows:

	2007	2006
Land and land improvements	$ 14,460,075	$ 14,127,692
Buildings and improvements	74,170,986	70,128,727
Property under capital leases	256,230	198,330
Furniture and equipment	12,415,906	10,875,908
Vehicles	574,489	532,573
Art collection	264,361	264,361
	102,142,047	96,127,591
Less: Accumulated depreciation and amortization	(34,852,074)	(31,261,907)
	67,289,973	64,865,684
Construction in progress	411,987	840,972
Property, buildings, and equipment, net	$ 67,701,960	$ 65,706,656

Depreciation and amortization expense for the years ended July 31, 2007 and 2006 amounted to $3,870,653 and $3,726,207, respectively

NOTE 6 - TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes for the years ended July 31:

	2007	2006
Resident assistance	$ 31,642	$ 62,858
Capital expenditures	32,832	100,781
Charitable remainder trust	51,090	47,107
Collections – art	264,361	263,284
Healthcare	209,747	222,112
Pooled income fund	239,056	212,084
Employee scholarships	51,624	72,288
Other	66,779	9,621
	$ 947,131	$ 990,135

Permanently restricted net assets of $1,496,200 and $1,331,943 at July 31, 2007 and 2006 are restricted to activities, health, scholarships, and music endowment funds.

NOTE 7 - RESIDENCE AGREEMENTS

For the right to occupy a living unit for life and to receive certain services, residents are required to pay an entrance fee. Upon execution of a deposit agreement, 20% of the entrance fee is payable with the remaining 80% due on or before occupancy by the residents.

Residents may cancel their Residence Agreement at any time up to 90 days after establishing residency at Casa and will be refunded the full amount of the entrance fee paid, less an application fee of $1,000. After the 90-day period has expired, residents are entitled to receive various amounts of refunds based upon one of seven agreements covering Casa, as follows:

- Refundable 94 Plan (1 agreements) - Residents (or their estates) are entitled to a refund of 94% of the entrance fee paid. This plan is no longer offered.

- Standard resident agreement (440 agreements) - If cancellation occurs in the first seven and one-half years of residency, the resident shall be refunded the entrance fee, less 10% of the amount paid and 1% for each month or partial month that they were a resident. After seven and one-half years of residency, no refund is made. If the resident expires after the 90-day cancellation period, no refund is made and the unamortized entrance fee is recognized into income.

- Modified Standard Plan (2 agreements) - If cancellation or death occurs in the first seven and one-half years of residency, the residents (or their estates) shall be refunded the entrance fee, less 10% of the amount paid and 1% for each month or partial month that they were a resident. After seven and one-half years of residency, no refund is made. The first and second person's entry fees are treated separately and the first person to vacate the unit due to death or withdrawal is refunded on a second person fee basis, and the remaining individual is considered as the first person. This plan is no longer offered.

- Refundable 50 Plan (1 agreement) - Resident (or their estate) is entitled to a refund of 50% of the entrance fee paid. This plan is no longer offered.

- Refundable 75 Plan (3 agreements) – Residents (or their estates) are entitled to a refund of 75% of the entrance fee paid.

- Refundable 80 Plan (3 agreements) - Residents (or their estates) are entitled to a refund of 80% of the entrance fee paid. This plan is no longer offered.

Included in deferred revenue from entrance fees as of July 31, 2007 and 2006 are approximately $29,112,864 and $28,130,882, respectively, of amounts contractually refundable under these agreements.

NOTE 7 - RESIDENCE AGREEMENTS - CONTINUED

In addition to the entrance fees, all residents are charged monthly service fees. In addition to receiving various services such as food, utilities, cleaning, scheduled transportation services, and other services offered by Casa, residents are entitled to various levels of care, including assisted living and nursing care. Service fees are established at the inception of occupancy and may be increased by Casa according to "economic necessity," which is related to the percentage change in the prior year per capita cost of operating expenses of Casa for furnishing services to the residents.

NOTE 8 - LONG-TERM DEBT

On May 1, 2007, Casa issued $28,700,000 Variable Rate Revenue Refunding Bonds (the "Series 2007A" Bonds) and $16,945,000 Taxable Variable Rate Revenue Refunding Bonds (the "Series 2007B" Bonds, and together with Series 2007A Bonds, the "Series 2007 Bonds"). The Series 2007 Bonds will mature September 1, 2037. Interest on the Series 2007 Bonds will be calculated and payable on each Interest Payment Date for the Series 2007 Bonds in an amount equal to all interest which has accrued during the period from the last such Interest Payment Date to such current Interest Payment Date. In no event any Series 2007 Bonds to bear an interest at a rate per annum in excess of the Maximum Rate (lesser of 12% per annum).

The Series 2007 Bonds are secured by Casa's gross revenues, and further secured by first deed of trust on the Casa facilities, including real property. A bond insurance policy has been purchased relating to the Series 2007 Bonds, in which Fitch Ratings Service has given an "A+" rating.

The proceeds of the Series 2007 Bonds is be used, together with other available funds to (i) advance refund the entire outstanding principal amount of the California Health Facilities Financing Authority 1998 Series A Insured Bonds (ii) reimburse the Organization for certain capital expenditures, (iii) fund the debt service reserve fund, and (iv) pay certain expenses incurred in connection with the issuance of the Series 2007 Bonds, including the costs of obtaining the Series 2007 Bonds.

A debt reserve fund has been established from the bond proceeds with a trustee in the amount of $2,677,493 for the Series 2007 Bonds.

Long-term debt is comprised of the following at July 31:

	2007	2006
Series 2007A Bonds Variable Rate Revenue Refunding Bonds, are comprised of term bonds, bearing a variable interest rate with interest payments due monthly, principal payments due on an annual basis (commencing September 1, 2009), and maturing September 1, 2037.	$ 28,700,000	$ -

NOTE 8 - LONG-TERM DEBT - CONTINUED

	2007	2006
Series 2007B Bonds Taxable Variable Rate Revenue Refunding Bonds, are comprised of term bonds, bearing a variable interest rate with interest payments due monthly, principal payments due on an annual basis (commencing September 1, 2009), and maturing September 1, 2037.	16,945,000	-
Series 1998 A Insured Revenue Bonds, comprised of fixed rate serial and term bonds, due August 1, 2020, serial bond principal due annually each August 1 beginning 1999, and term bond sinking account payments due annually each August 1 beginning 2013, interest payable semiannually at rates ranging from 4.0% to 5.5%.	-	33,107,041
	45,645,000	33,107,041
Less: Current portion	-	2,185,000
	$ 45,645,000	$ 30,922,041

Schedule of principal repayments on long-term debt are as follows for fiscal years ending July 31:

2008	$ -
2009	865,000
2010	900,000
2011	935,000
2012	970,000
2013 to 2017	5,470,000
2018 to 2037	36,505,000
	$ 45,645,000

Casa is subject to financial covenants on its long-term debt which include a debt service coverage ratio. Casa was in compliance with all its covenants as of and for the years ended July 31, 2007 and 2006, respectively.

NOTE 9 - DERIVATIVE INSTRUMENT

In May 2007, Casa issued Series 2007 Bonds to advance refund the Series 1998 Bonds and reimburse Casa for previous project expenses (see Note 8). Casa has elected to issue the Series 2007 Bonds as variable rate demand bonds and lock in a fixed rate with an interest rate swap (the "Swap Agreement(s)"). To comply with tax law provisions related to the advance refunding component of the Series 2007 Bonds, the issue was segregated into two separate sub-series and the Swap Agreements were structured as four separate transactions. For each sub-series of bonds, Casa entered into one Swap Agreement for the escrow period and a second interest rate swap covering the period of time thereafter.

These debt obligations expose Casa to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense decreases. In conjunction with the issuance of the Series 2007 Bonds, Casa entered into four interest rate swaps (collectively, the "Swap Agreements") to minimize the financial market risks resulting primarily from changes in interest rates and to limit the variability of interest payment.

In general, the Swap Agreements each provide that Casa will pay a fixed rate and receive a floating rate determined by the Series 2007 Bonds. The Swap Agreement is a contract to exchange floating interest rates over a life of the Swap Agreement which follows the amortization schedule of the Series 2007 Bonds (See Note 8). Two of the Swap Agreements are effective May 2, 2007 and terminate on August 1, 2008. The other two Swap Agreements are effective August 1, 2008 and terminate on September 1, 2036.

Three Swap Agreements are with Morgan Stanley Capital Services, Inc. (rated Aa2/AA) and one Swap Agreement with KBC Bank (rated Aa3/A+). The Swap Agreements with Morgan Stanley Capital Services, Inc. consists of one short-term Swap Agreement and two long-term Swap Agreements. The short-term Swap Agreement has a notional amount of $28,700,000 ("the Series 2007A Bonds"), bears a fixed interest rate of 3.794%, with the variable rate consisting of the SIFMA Index (formerly BMA rate - calculated on a weekly basis) and matures August 1, 2008. The first long-term Swap Agreement has a notional amount of $28,700,000 ("the Series 2007A Bonds"), bears a fixed interest rate of 3.596%, with the variable rate consisting of 67% of LIBOR. The second long-term Swap Agreement has a notional amount of $16,945,000 ("the Series 2007B Bonds"), bears a fixed interest rate of 3.596%, with the variable rate consisting of 67% of LIBOR and both mature September 1, 2037. The Swap Agreement with KBC Bank is short-term and has a notional amount of $16,945,000 ("the Series 2007B Bonds"), bears a fixed interest rate of 5.134%, with a variable rate consisting of 100% of LIBOR and matures August 1, 2008.

NOTE 9 - DERIVATIVE INSTRUMENT - CONTINUED

The notional amount does not represent the amount of potential exposure to credit loss. The notional amount was $45,645,000 (Series 2007A Bonds - $28,700,000 and Series 2007B Bonds - $16,945,000) as of July 31, 2007 and will be decreased as the bonds are amortized (See Note 8). The exposure to loss is limited to the receivable or payable amount, if any, which may be generated as a result of the Swap Agreements. The net cash paid or received under the Swap Agreements are recognized as an adjustment to interest expense. For the year ended July 31, 2007, total cash received under the Swap Agreement amounted to $6,608.

Changes in the fair market value of the interest rate swaps are reported as a "change in net unrealized gains on derivative instruments" on the consolidated statements of activities and changes in net assets. As of July 31, 2007, the valuation of the Swap Agreements resulted in a net unrealized gain of $578,316 due to increasing variable interest rates since May 2007 (inception of Swap Agreements). The offsetting non-current asset related to cumulative gain is reported on the consolidated statements of financial position as "derivative instrument assets". Providing that Casa holds the Swap Agreements to maturity, the value of the derivatives will be zero. These swapping transactions can be terminated at market rates at any time during the term of the swap. Casa does not intend to terminate the agreement and does not expect to realize a gain or loss. Changes in the fair value of the Swap Agreements are included as a decrease or increase in net assets.

NOTE 10 - OBLIGATIONS UNDER CAPITAL LEASES

Casa leases equipment under capital leases, with most leases containing a purchase option at prices representing the fair value of the equipment at expiration of the lease term. Property under capital leases is amortized over the lease terms of 3 to 5 years. Amortization expense of capital leases in 2007 and 2006 included in depreciation and amortization expense totaled $67,243 and $42,446, respectively (see Note 5).

Future minimum lease payments as of July 31, 2007 are as follows:

2008	$ 62,673
2009	60,377
2010	38,855
2011	35,015
2012	18,540
Total minimum lease payments	215,460
Less: Amount representing interest at 0.53% to 12.84%	28,213
Present value of net minimum capital lease payments	187,247
Less: Current portion	49,621
	$ 137,626

NOTE 11 - BENEFIT PLAN

Casa sponsors a 403(b) defined contribution plan (the "Plan") covering all eligible employees. Participants must be 21 years of age and work at least 20 hours per week. Participants of the Plan may contribute up to $20,000 (50 years or older) or $15,000 (under 50 years old) of their pre-tax salary. Casa makes matching contributions currently at 50% of the first 6% of gross wages. All contributions vest immediately. Total employer contributions to the Plan for 2007 and 2006 were $100,416 and $101,553, respectively.

NOTE 12 - MANAGEMENT AGREEMENT

In 2006, Casa entered into a management agreement extension with Life Care Services LLC, expiring on July 31, 2009. Management fee expense related to this agreement, included in general and administrative expense, was approximately $949,481 and $829,498, inclusive of salary and benefits, for the years ended July 31, 2007 and 2006, respectively. Amounts due and payable to Life Care Services, Inc. amounted to approximately $108,170 and $35,326 at July 31, 2007 and 2006, respectively. Management fee expense may vary year to year as certain amounts are based upon an incentive performance computation.

NOTE 13 - LITIGATION

Casa is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Casa's future financial position or changes in net assets.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Construction

Casa has several projects under construction and pre-development. Total pre-development and construction costs as of July 31, 2007 and 2006 amounted to $411,987 and $840,972, respectively. Casa's estimated costs to complete construction of these projects will be approximately $4,063,000 through August 2009.

NOTE 15 - INSURANCE COVERAGE

Professional Liability

Casa is insured for professional and general liability claims under an occurrence-based policy for $1,000,000 per occurrence and $3,000,000 aggregate and $25,000,000 program aggregate. Losses in excess of the limits are covered by an umbrella liability policy up to $10,000,000 per occurrence and $50,000,000 aggregate. Deductibles under the policy range from $250 to $25,000.

Self-Insured

Casa is self-insured for workers compensation claims beginning in the year ended July 31, 2004 up to a maximum of $250,000 per occurrence. Self-insured losses are accrued based upon Casa's estimates of the aggregate liability for uninsured claims incurred using Casa's historical experience. The excess of premiums paid for actual claims experience resulted in a worker's compensation receivable of approximately $1,437,000 at July 31, 2007 and 2006 and is included in other receivables and other assets in the accompanying consolidated statements of financial position.

NOTE 16 - SUBSEQUENT EVENT

Market Disruption

The sub-prime mortgage market turmoil affected Radian Asset Assurance, Inc.'s ("Radian's") credit rating subsequent to July 31, 2007. Fitch Rating downgraded Radian in September 2007 and market interest rates for variable rate demand bonds insured by Radian, including the Series 2007A and 2007B Bonds, had to rise significantly relative to their respective benchmark rates in order to be successfully remarketed. As of September 30, 2007, the Series 2007A Bonds were remarketed at 216 basis points over SIFMA Index and the Series 2007B Bonds were remarketed at 137 basis points over 1-month LIBOR. Morgan Stanley, the counterparty on Casa's Swap Agreements, cited a Market Disruption as defined in the Swap Agreements and elected to exercise its option to change the variable rate paid to Casa.

Following Morgan Stanley's election as described above, the variable rate Casa receives on the short-term Series 2007A swap agreement changed from the weekly remarketed rate on the Series 2007A Bonds to the SIFMA Index (formerly known as the BMA Index).

The Series 2007B swap agreement was not affected and Casa continues to receive a variable rate equal to 1-month LIBOR on that agreement. The long-term Series 2007A and Series 2008A swap agreements were also not affected and Casa will receive a variable rate equal to 67% of 1-month LIBOR on each agreement when they become effective in 2008.

NOTE 16 - SUBSEQUENT EVENT - CONTINUED

Market Disruption - Continued

Casa continues to pay the weekly remarketed rate on both the Series 2007A and 2007B Bonds to bondholders in accordance with the bond agreements.

For the three months ended October 31, 2007, Casa has recorded a $1,487,966 unrealized loss on derivative instruments due to the decline in the fair value of the Swap Agreements resulting from the above-mentioned market disruption. As a result, the derivative instrument assets totaling $578,316 in the accompanying consolidated statements of financial position as of July 31, 2007 are recorded as a liability totaling $909,650 as of October 31, 2007.

CASA DE LAS CAMPANAS

CONSOLIDATED SUPPLEMENTARY INFORMATION

JULY 31, 2007 AND 2006

KELLOGG & ANDELSON
ACCOUNTANCY CORPORATION

To the Members of the
Audit Committee
Casa de las Campanas
Rancho Bernardo, California

Independent Auditors' Report on Consolidated Supplementary Information

Our report on our audit of the basic consolidated financial statements of Casa de las Campanas for 2007 appears on page 1. The audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated supplementary information on pages 25 through 26 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, accordingly, we express no opinion on it.

Kellogg + Andelson

November 1, 2007

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CASA DE LAS CAMPANAS
CONSOLIDATED SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JULY 31, 2007
SEE ACCOUNTANTS' REPORT ON CONSOLIDATED SUPPLEMENTARY INFORMATION

ASSETS

	Casa de Las Campanas	Casa Foundation	Eliminations	Consolidated
CURRENT ASSETS:				
Cash and cash equivalents	$ 2,319,671	$ 4,306	$ -	$ 2,323,977
Assets whose use is limited or restricted, required for current liabilities	3,390,993	-	-	3,390,993
Accounts receivable, net	917,899	-	-	917,899
Prepaid expenses and other current assets	753,698	-	-	753,698
Contributions receivable	-	233,958	-	233,958
Other receivables	1,120,437	-	-	1,120,437
Total current assets	8,502,698	238,264	-	8,740,962
INTERCOMPANY RECEIVABLES	2,901,603	1,754,049	(4,655,652)	-
ASSETS WHOSE USE IS LIMITED OR RESTRICTED, less amounts classified as current	14,127,667	2,551,082	-	16,678,752
LONG-TERM INVESTMENTS	27,981,907	-	-	27,981,907
PROPERTY, BUILDINGS, AND EQUIPMENT, net	67,437,231	264,729	-	67,701,960
DERIVATIVE INSTRUMENT ASSETS	578,316	-	-	578,316
DEFERRED FINANCING FEES, net	1,836,954	-	-	1,836,954
OTHER ASSETS	799,942	-	-	799,942
Total assets	$ 124,166,321	$ 4,808,124	$ (4,655,652)	$ 124,318,793

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 2,610,862	$ 20,594	$ -	$ 2,631,456
Interest payable	160,519	-	-	160,519
Deposits from residents	909,734	-	-	909,734
Current portion of obligations under capital leases	49,621	-	-	49,621
Current portion of obligations under gift annuity contracts	362,339	-	-	362,339
Current portion of estimated refundable entrance fees	644,130	-	-	644,130
Total current liabilities	4,737,205	20,594	-	4,757,799
OBLIGATIONS UNDER CAPITAL LEASES, net of current portion	137,626	-	-	137,626
OBLIGATIONS UNDER GIFT ANNUITY CONTRACTS, net of current portion	1,870,825	-	-	1,870,825
ESTIMATED REFUNDABLE ENTRANCE FEES, net of current portion	3,162,866	-	-	3,162,866
DEFERRED REVENUE, Pooled Income Funds	-	131,878	-	131,878
LONG-TERM DEBT, net of current portion	45,645,000	-	-	45,645,000
DEFERRED REVENUE FROM ENTRANCE FEES	44,865,238	-	-	44,865,238
Total liabilities	100,418,760	152,472	-	100,571,232
NET ASSETS:				
Unrestricted	21,304,229	2,212,322	(2,212,322)	21,304,229
Temporarily restricted	947,131	947,130	(947,130)	947,131
Permanently restricted	1,496,201	1,496,200	(1,496,200)	1,496,201
Total net assets	23,747,561	4,655,652	(4,655,652)	23,747,561
Total liabilities and net assets	$ 124,166,321	$ 4,808,124	$ (4,655,652)	$ 124,318,793

CASA DE LAS CAMPANAS
SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JULY 31, 2007
SEE ACCOUNTANTS' REPORT ON SUPPLEMENTARY INFORMATION

	Casa de Las Campanas	Casa Foundation	Eliminations	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS:				
REVENUES, GAINS AND OTHER SUPPORT:				
Resident fees earned, including amortization of deferred revenues from non-refundable entrance fees of $6,310,462	$ 26,718,360	$ -	$ -	$ 26,718,360
Investment income	967,018	40,201	-	1,007,219
Realized gains on sale of investments	1,198,287	38,404	-	1,236,691
Net assets released from restrictions, used for operations	-	298,123	-	298,123
Contributions	602,198	102,354	(602,198)	102,354
Total revenues, gains and other support	29,485,863	479,082	(602,198)	29,362,747
OPERATING EXPENSES:				
Resident services	804,484	-	-	804,484
Health center	4,544,340	-	-	4,544,340
Assisted living	1,758,831	-	-	1,758,831
Home health	357,511	-	-	357,511
Plant and maintenance	3,735,925	-	-	3,735,925
Housekeeping and laundry	1,557,873	-	-	1,557,873
Food and beverage	4,750,764	-	-	4,750,764
Donation expense	-	534,264	(471,934)	62,330
General and administrative	3,894,490	118,730	-	4,013,220
Depreciation and amortization	3,903,536	260	-	3,903,796
Interest expense	1,826,463	-	-	1,826,463
Total operating expenses	27,134,217	653,254	(471,934)	27,315,537
Income from operations	2,351,646	(174,172)	(130,264)	2,047,210
NONOPERATING REVENUES	(152,362)	-	-	(152,362)
Excess of revenues over expenses	2,199,284	(174,172)	(130,264)	1,894,848
NET UNREALIZED GAINS ON INVESTMENTS	1,196,429	61,616	(6,414)	1,251,631
LOSS ON REALY RETIREMENT OF LONG TERM DEBT	(549,979)	-	-	(549,979)
CHANGE IN VALUE OF GIFT ANNUITY CONTRACTS	-	51,328	-	51,328
CHANGE IN NET UNREALIZED GAIN ON DERIVATIVE INSTRUMENTS	578,316	-	-	578,316
NET ASSETS RELEASED FROM RESTRICTIONS, USED FOR CAPITAL EXPENDITURES	-	197,906	-	197,906
Increase in unrestricted net assets	3,424,050	136,678	(136,678)	3,424,050
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	391,003	391,003	(391,003)	391,003
Investment income	12,313	12,313	(12,313)	12,313
Realized (losses) on sale of investments	(52)	(52)	52	(52)
Net unrealized (losses) on investments	340	340	(340)	340
Net assets released from restrictions, used for operations	(280,199)	(280,199)	280,199	(280,199)
Net assets released from unrestricted to temporarily restricted	542	542	(542)	542
Net assets released from restrictions, used for capital expenditures	(197,906)	(197,906)	197,906	(197,906)
Change in value of charitable remainder trusts and pooled income funds	30,955	30,955	(30,955)	30,955
(Decrease) in temporarily restricted net assets	(43,004)	(43,004)	43,004	(43,004)
CHANGES PERMANENTLY RESTRICTED NET ASSETS:				
Contributions	14	14	(14)	14
Investment income	9,529	9,529	(9,529)	9,529
Realized gains on sale of investments	14,842	14,842	(14,842)	14,842
Net unrealized gains on investments	26,314	26,314	(26,314)	26,314
Changes in value of gift annuity contract	131,483	131,483	(131,483)	131,483
Net assets released from restrictions, used for operations	(17,924)	(17,924)	17,924	(17,924)
Increase in permanently restricted net assets	164,258	164,258	(164,258)	164,258
Increase in net assets	3,545,304	257,932	(257,932)	3,545,304
NET ASSETS BEGINNING OF YEAR	20,202,257	4,397,720	(4,397,720)	20,202,257
NET ASSETS END OF YEAR	$ 23,747,561	$ 4,655,652	$ (4,655,652)	$ 23,747,561

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

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The following is a summary of the legal documents which are not described elsewhere in this Official Statement. These summaries do not purport to be comprehensive and reference should be made to the Master Indenture, Supplement No. 1, Amended and Restated Bond Indenture and Amended and Restated Loan Agreement for a full and complete statement of their provisions. All capitalized terms not defined in this Official Statement have the meanings set forth in the Bond Indentures and the Loan Agreements.

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used in this Official Statement including the summaries of the Master Indenture, Supplement No. 1, Amended and Restated Bond Indenture and Amended and Restated Loan Agreement.

"Accountant" means any firm of nationally recognized independent certified public accountants selected by the Obligated Group Representative and not objected to by the Master Trustee.

"Account Control Agreement" means an agreement providing for (i) control of deposit accounts within the meaning of Division 9 of the California Commercial Code, including Section 9104 of the California Commercial Code or (ii) control of securities accounts within the meaning of Divisions 8 and 9 of the California Commercial Code, including Sections 9106 and 8106 of the California Commercial Code, entered into by the Members of the Obligated Group, the Master Trustee and a Depository Bank.

"Act" means Chapter 5 of Division 7 of Title I (commencing with Section 6500) of the Government Code of the State of California as from time to time amended.

"Additional Bonds" means bonds of a series authorized by the Authority and issued under and pursuant to a supplemental indenture.

"Additional Indebtedness" means as to the Corporation any Indebtedness incurred subsequent to the issuance of the Initial Obligations issued under the Initial Related Supplements executed pursuant to the Master Indenture and means as to any other Member, Indebtedness incurred subsequent to becoming a Member, including in either case Obligations issued to evidence, guarantee or secure Indebtedness previously incurred by the Corporation or any such other Member, respectively.

"Adjusted Operating Revenues" means, as to any period, total operating and non-operating revenues of the Obligated Group, excluding net unrealized gains (losses) on the valuation of investments and net unrealized derivative contract gains (losses).

"Affiliate" means: (1) a nonprofit corporation, a majority of the members of the Governing Body of which are (i) the same as the corporate members or directors of a Member, (ii) subject to election or appointment by a Member, (iii) subject to election or appointment by a corporation which has the power to elect or appoint at least 50% of the members of the Governing Body of a Member, or (iv) that has the power to elect or appoint a majority of the members of the Governing Body of a Member; or (2) a for-profit corporation, at least 50% of whose voting stock is owned by a Member or an Affiliate.

"Annual Debt Service" means for each Fiscal Year the aggregate amount (without duplication) of (1) principal and interest scheduled to become due (either by maturity or by mandatory redemption or mandatory prepayment, but excluding optional prepayments and redemptions) and sinking fund payments required to be paid in that Fiscal Year on all Long-Term Indebtedness, (2) all payments made on a Guaranty of Long-Term Indebtedness, and (3) the aggregate amount of Master Indenture Obligation Payments to be paid in that Fiscal Year, less any amounts of such principal, interest or sinking fund payments to be paid during such Fiscal Year from:

(a) the proceeds of Indebtedness, or

(b) moneys or Governmental Obligations, including moneys received from governmental bodies, deposited in an irrevocable escrow for the purpose of paying such principal, interest or sinking fund payments or

Master Indenture Obligation Payments, provided such moneys (including, where appropriate, the earnings or other increment to accrue thereon) are required to be applied to pay, and are sufficient to pay, such principal, interest or sinking fund payments, or

(c) Capitalized Interest;

provided that (i) the amount of such payments for a future period will be calculated in accordance with the Master Indenture; (ii) if a Financial Products Agreement has been entered into by any Member with respect to Long-Term Indebtedness, interest on such Long-Term Indebtedness will be included in the calculation of Annual Debt Service by including for each Fiscal Year an amount equal to the amount of interest payable on such Long-Term Indebtedness in such Fiscal Year at the rate or rates stated in such Long-Term Indebtedness plus any Financial Product Payments payable in such Fiscal Year minus any Financial Product Receipts receivable in such Fiscal Year; provided that in no event will any calculation made pursuant to this clause result in a number less than zero being included in the calculation of Annual Debt Service and provided further that any Financial Product Payments or Financial Product Receipts for any future period with respect to a Financial Product Agreement that is not based on a fixed interest rate will be calculated in accordance with the Master Indenture as if the Financial Product Agreement were Variable Rate Indebtedness; and (iii) with respect to any Long-Term Indebtedness for which the number of actual payments of principal in any Fiscal Year is greater than those in the immediately preceding and/or succeeding Fiscal Years solely by reason of the fact that such principal payments are scheduled to occur other than on a specified date or dates [or by reasons of this clause (iii)], the last principal payment in such Fiscal Year for which the number of payments is higher will be deemed to be required to be made in the next preceding or succeeding Fiscal Year, as appropriate and as designated by the Obligated Group Representative.

"Annual Operating Revenues" means revenues comprising program service fees, other income and investment income for any Fiscal Year, all as determined in accordance with generally accepted accounting principles.

"Annual Evaluation Date" means December 31st of each calendar year.

"Authority" means the ABAG Finance Authority for Nonprofit Corporations, a joint exercise of powers authority duly organized and existing under the laws of the State of California, created and existing under and by virtue of the Act, and its successors and assigns.

"Authorized Representative" means the President, Chief Financial Officer, or Secretary of the Authority or any other officer authorized by the Authority to take action pursuant herewith.

"Balloon Indebtedness" means (a) Long-Term Indebtedness, 25% or more of the original principal of which matures during any consecutive twelve-month period, if such maturing principal amount is not required to be amortized below such percentage by mandatory redemption or prepayment prior to such twelve-month period, and (b) Commitment Indebtedness. Balloon Indebtedness does not include Indebtedness which otherwise would he classified under the Master Indenture as Put Indebtedness.

"Bank Bonds" means Bonds purchased by the Letter of Credit Issuer, but excluding Bonds no longer considered Bank Bonds pursuant to the terms of the Letter of Credit Agreement.

"Bank Bond Sale Date" means the day on which Bank Bonds cease to be Bank Bonds.

"Bond Counsel" means any nationally recognized municipal bond counsel acceptable to the Authority, the Bond Trustee and the Bond Insurer.

"Bond Financed Property" means any and all property financed or refinanced with the proceeds of the Bonds or the Refunded Bonds.

"Bond Indenture" means the Amended and Restated Bond Trust Indenture, dated as of February 1, 2008 between the Authority and the Bond Trustee, as it may from time to time be amended or supplemented.

“Bond Insurance Policies” means the financial guaranty insurance policies issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided herein.

“Bond Insurer” means Radian Asset Assurance Inc., a corporation organized under the laws of the state of New York, or any successor thereto or assignee thereof and any surviving, resulting or transferee corporation.

“Bond Obligation” means Obligation No. 1, dated as of February 1, 2008, issued under the Master Indenture.

“Bond Sinking Fund” means the fund by that name created under the Indenture to which amounts are to be deposited in connection with a sinking fund.

“Bond Trustee” means U.S. Bank National Association, or any successor trustee under the Bond Indenture.

“Bond Year” means any 12 month period beginning September 1 of a calendar year and ending August 31 of the next succeeding year. For the purpose of calculating debt service on the Bonds payable in any Bond Year, principal and interest payable on the Bonds on September 1 of any Bond Year shall be deemed to be payable during the preceding Bond Year.

“Bondholder,” “holder” or “owner of the Bonds” means the registered owner of any Bond and does not mean any beneficial owner of a Bond whether through a book entry system or otherwise.

“Bonds” means, collectively, the $45,645,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007A (the "Series 2007A Bonds"), the ABAG Finance Authority for Nonprofit Corporations Taxable Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007B (the "Series 2007B Bonds"), and any other series of Bonds issued hereunder.

“Book Value” means, when used in connection with Property, Plant and Equipment or other Property of any Member, the value of such property, net of accumulated depreciation, as it is carried on the books of such Member and in conformity with generally accepted accounting principles, and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such property of each Member determined in such a way that no portion of such value of property of any Member is included more than once.

“Business Day” means any day other than (a) a Saturday, Sunday or other day on which banks located in New York, New York or any other city in which the Principal Office of the Liquidity Facility Provider, the Bond Insurer, the Remarketing Agent, the Tender Agent, the Auction Agent, the Market Agent, any Broker Dealer or the Bond Trustee is located are required or authorized by law to close, (b) a day on which the New York Stock Exchange is closed, or (c) a day on which the payment system of the Federal Reserve System is not operational.

“Certificate, Statement, Request, Consent or Order of any Member or of the Master Trustee” mean, with respect to the summary of the Master Indenture, respectively, a written certificate, statement, request, consent or order signed in the name of such Member by its respective Authorized Representative or in the name of the Master Trustee by its Responsible Officer. Any such instrument and supporting opinions or certificates, if any, may, but need not, be combined in a single instrument with any other instrument, opinion or certificate and the two or more so combined will be read and construed as a single instrument.

"Closing Date" means February 7, 2008.

“Code” means the Internal Revenue Code of 1986, as amended, or any corresponding provision of any future laws of the United States of America relating to federal income taxation, and except as otherwise provided herein or required by the context hereof, includes interpretations thereof contained or set forth in the applicable regulations of the Department of the Treasury (including applicable final regulations or temporary regulations), the applicable rulings of the Internal Revenue Service (including published Revenue Rulings and private letter rulings) and applicable court decisions.

"Collateral" means all of the following whether now existing or hereafter created or acquired: (a) all Gross Revenues, (b) all Gross Revenue Accounts, (c) all accounts and accounts receivable, including health-care-insurance receivables, and (d) all proceeds of any of the foregoing. The terms "accounts" and "health-care-insurance receivables" are used in the Master Indenture with meanings as defined in the California Commercial Code Division 9. Notwithstanding the foregoing, "Collateral" will not include Restricted Assets.

"Commitment Indebtedness" means the obligation of any Member (a) to repay amounts disbursed pursuant to a commitment from a financial institution to pay, refinance or purchase when due, when tendered or when otherwise required to be purchased or to make a loan for any such purpose (1) other Indebtedness of such Member, or (2) Indebtedness of a Person who is not a Member, which Indebtedness is guaranteed by a Guaranty of such Member or secured by or payable from amounts paid on Indebtedness of such Member, in either case which Indebtedness or Guaranty of such Member was incurred in accordance with the provisions of the Master Indenture, (b) to pay interest payable on amounts disbursed for such purposes, and (c) any fees, costs, expenses and penalties payable to such financial institution in connection with such commitment and enforcement thereof.

"Completion Indebtedness" means any Long-Term Indebtedness or Balloon Indebtedness incurred by any Obligated Group Member for the purpose of financing the completion of constructing or equipping facilities for which Long-Term Indebtedness or Balloon Indebtedness had theretofore been incurred, to the extent necessary to provide a completed and equipped facility of the type and scope contemplated at the time, and in accordance with the general plans and specifications for such facility as originally prepared with only such changes as have been made in conformance with the documents pursuant to which such Long-Term Indebtedness or Balloon Indebtedness was originally incurred.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the Corporation and the Trustee, as dissemination agent, dated as of May 1, 2007, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Construction Completion" means the completion of construction of the Facilities as evidenced by a certificate of the Corporation.

"Consulting Engineer" means an engineer (or engineering firm or corporation) or Architect appointed by the Corporation who is Independent and registered in the State and qualified to pass upon matters relating to residential facility construction questions.

"Corporation" means Casa de las Companas, Inc., a nonprofit public benefit corporation duly organized and existing under the laws of the State of California, or any corporation which is the surviving, resulting or transferee corporation of the Corporation in any merger, consolidation or transfer of assets permitted under the Master Indenture.

"Current Value" means: (a) with respect to Property, Plant and Equipment either (i) the aggregate fair market value of such Property, Plant and Equipment as reflected in the most recent written report of an appraiser not objected to by the Master Trustee and, in the case of real property, who is a member of the American Institute of Real Estate Appraisers (MAI), delivered to the Master Trustee (which report will be dated not more than three (3) years prior to the date as of which Current Value is to be calculated), plus the Book Value of any Property, Plant and Equipment acquired since the last such report, minus the greater of the Book Value or the fair market value (as reflected in such most recent appraiser's report) of any Property, Plant and Equipment disposed of since the last such report, or (ii) the value equal to a bona fide offer for the purchase of such Property, Plant and Equipment made on an arm's length basis within six (6) months of the date of the valuation as set forth in an Officer's Certificate; and (b) with respect to any other Property, the fair market value of such Property, which fair market value will be evidenced in a manner not objected to by the Master Trustee.

"Daily Mode" means the Mode during which Bonds bear interest at the Daily Rate.

"Daily Rate" means an interest rate that is determined on each Business Day with respect to the Bonds in the Daily Mode.

"Debt Service" means, for any Fiscal Year, the sum of:

(1) the interest payable during such Fiscal Year with respect to all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from Sinking Account Installments as scheduled (except to the extent that such interest is capitalized); and

(2) that portion of the principal amount with respect to all outstanding Bonds maturing in such Bond Year or scheduled to be redeemed from Sinking Fund Installments; and

(3) that portion of the payments on other Long-Term Indebtedness, including but not limited to Parity Debt, or capital leases (collectively, "Payments") required to be made by, or guaranteed by, the Corporation during such Fiscal Year (except to the extent that the interest portion of such Payments is capitalized); and

(4) provided that, as to any such Bonds or Payments bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be (i) the average interest rate on such Bonds or Payments during the twenty-four (24) calendar months preceding the date of calculation (or the portion of the then current Fiscal Year that such Bonds or Payments have borne interest) or (ii) if such Bonds or Payments were not outstanding during such twenty-four (24) calendar month period but at least twelve (12) months, one hundred twenty percent (120%) of the average rat of such Bonds or Payments during the twelve (12) calendar months preceding the date of calculation or (iii) if such Bonds or Payments were outstanding for less than twelve (12) calendar months, the rate of the Bond Market Association Municipal Swap Index for tax-exempt Indebtedness or LIBOR for taxable Indebtedness; and

(5) provided further that if any series or issue of such Bonds or Payments have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Bonds or Payments were being paid from the date of incurrence thereof in substantially equal annual amounts over a period equal to the lesser of twenty (20) years from the date of calculation or the actual remaining term to maturity; alternatively such Indebtedness may be assumed to mature in accordance with the terms of a binding commitment to pay such Indebtedness upon maturity from a financial institution rated "Aa" by Moody's or "AA" by Standard and Poor's; and

(6) provided further that with respect to Payments under any Interest Rate Agreement, during the term of such Interest Rate Agreement and so long as the provider (or guarantor thereof) of such Interest Rate Agreement is rated in an investment grade category by a Rating Agency and is not in default thereunder, for purposes of any calculation of interest on Long-Term Indebtedness (including Bonds), the interest rate (or portion thereof) on the Indebtedness of such maturity or maturities shall be determined as if such Indebtedness bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the Corporation after giving effect to such Interest Rate Agreement. Any obligations under an Interest Rate Agreement shall not be separately included in any calculation of interest on Long-Term Indebtedness; and

(7) provided further that, with respect to Long-Term Indebtedness guaranteed by the Corporation, there shall be included in Debt Service (i) twenty-five percent (25%) of the Corporation's maximum possible monetary liability under the guaranty in the Fiscal Year unless the guaranty is drawn upon, and (ii) one hundred percent (100%) of the Corporation's monetary liability under the guaranty which has been drawn upon, until such time as all amounts drawn upon the guaranty have been repaid to the Corporation; and

(8) provided further that, in reference to Long-Term Indebtedness, principal or interest shall be excluded from Debt Service to the extent that escrowed or trusteed funds (such as capitalized interest funds, defeasance escrows, and, only with respect to the final principal and/or interest payment, debt service reserve funds), together with interest thereon, are available to pay such principal or interest.

"Debt Service Coverage Ratio" means with respect to any Long-Term Indebtedness, Income Available for Debt Service divided by Maximum Annual Debt Service.

“Debt Service Reserve Fund” means the fund by that name established pursuant to the Bond Indenture.

“Debt Service Reserve Fund Requirement” means the lesser of (i) the maximum amount of principal and interest which shall be payable during the current or any succeeding Bond Year on the Bonds then outstanding (which interest shall be, with respect to any Bonds subject to an interest rate swap, the rate payable by the Corporation on such interest rate swap), (ii) an amount equal to 10% of the Proceeds of the Bonds or (iii) an amount equal to 125% of the average annual debt service with respect to the Bonds. For purposes of this definition, the Bonds which have not been converted to bear interest at Fixed Rates shall be deemed to bear interest the greater of (i) the average rate borne by such Bonds for the 12 complete months preceding the date of calculation and (ii) the Bond Buyer 25 Bond Revenue Index most recently published in The Bond Buyer, or any successor publication thereto, prior to the date of calculation. The Corporation shall provide written confirmation of the Debt Service Reserve Fund Requirement to the Bond Trustee upon request. “Depository Bank” means a financial institution which has entered into an Account Control Agreement with one or more Members and the Master Trustee.

"Deed of Trust" means that certain Amended and Restated Deed of Trust with Assignment of Leases and Rents, and Security Agreement and Fixture Filing, dated as of February 1, 2008 from the Corporation for the benefit of the Master Trustee.

“Defaulted Interest” means interest on any Bond which is payable but not duly paid on the date due.

“Depository Participant” means those broker dealers, banks and other financial institutions reflected on the books of the Securities Depository as holding beneficial interests in the Bonds.

“DTC” means The Depository Trust Company.

“Eligible Bonds” means any Bonds other than (i) Liquidity Facility Bonds, (ii) Bank Bonds, (iii) Bonds owned by, for the account of, or on behalf of, the Authority or the Corporation or any affiliate of the Corporation, or (iv) Bonds not covered by a Liquidity Facility.

“Eligible Moneys” means (a) moneys (i) paid or deposited by the Corporation or with the Bond Trustee, (ii) continuously held in any fund, account or sub account established hereunder which is subject to the lien of the Bond Indenture and in which no other moneys which are not Eligible Moneys are held, and (iii) which have so been on deposit with the Bond Trustee for at least 367 days from their receipt by the Bond Trustee, during and prior to which period no petition by or against the Authority, the Corporation or any “affiliate” thereof (as defined in Title 11 of the United States Code) to which such moneys are attributable under any bankruptcy or similar law now or hereafter in effect shall have been filed and no bankruptcy or similar proceeding otherwise initiated (unless such petition or proceeding shall have been dismissed and such dismissal be final and not subject to appeal), together with investment earnings on such moneys; (b) moneys received by the Bond Trustee from any draw on the Letter of Credit, together with earnings on such moneys; (c) moneys received by the Bond Trustee pursuant to the Liquidity Facility which are held in any fund, account or sub account established hereunder in which no other moneys which are not Eligible Moneys are held, together with investment earnings on such moneys; (d) proceeds from the remarketing of any Bonds pursuant to the provisions of the Bond Indenture to any person other than the Authority, the Corporation or any “affiliate” thereof (as defined in Title 11 of the United States Code); (e) proceeds from the issuance and sale of refunding bonds, together with the investment earnings on such proceeds, if there is delivered to the Bond Trustee at the time of issuance and sale of such bonds an opinion of nationally recognized bankruptcy counsel which opinion is acceptable to the Bond Trustee, the Bond Insurer, the Letter of Credit Issuer and each Rating Agency then maintaining a rating on the Bonds bearing interest at a Daily Rate or Weekly Rate (which opinion may assume that no Bondholders are “insiders” within the meaning of Title 11 of the United States Code) to the effect that the use of such proceeds and investment earnings to pay the principal of, premium, if any, or interest on the Bonds would not be avoidable as preferential payments under Section 547 of the United States Bankruptcy Code recoverable under Section 550 of the United States Bankruptcy Code should the Authority, the Corporation or any “affiliate” thereof (as defined in Title 11 of the United States Code) become a debtor in a proceeding commenced thereunder; and (f) moneys which are derived from any other source, together with the investment earnings on such moneys, if the Bond Trustee has received an opinion of nationally recognized bankruptcy counsel which opinion is acceptable to the Bond Trustee, the Bond Insurer and each Rating Agency then maintaining a rating on the Bonds bearing interest at a Daily Rate or Weekly Rate (which opinion may assume that no

Bondholders are "insiders" within the meaning of Title 11 of the United States Code) to the effect that payment of such amounts to bondholders would not be avoidable as preferential payments under Section 547 of the United States Bankruptcy Code recoverable under Section 550 of the United States Bankruptcy Code should the Authority, the Corporation or any "affiliate" thereof (as defined in Title 11 of the United States Code) become a debtor in a proceeding commenced thereunder; provided that such proceeds, moneys or income shall not be deemed to be Eligible Moneys or available for payment of the Bonds if, among other things, an injunction, restraining order or stay is in effect preventing such proceeds, moneys or income from being applied to make such payment. For the purposes of this definition, the term "moneys" shall include cash and any investment securities including, without limitation, Government Obligations.

"Event of Default" means any of the events specified in the Master Indenture, the Bond Indenture or the Loan Agreement.

"Expiration Date" means (i) the date upon which a Letter of Credit is scheduled to expire (taking into account any extensions of such Expiration Date) in accordance with its terms without regard to any early termination thereof and (ii) the date upon which a Letter of Credit terminates following voluntary termination by the Corporation pursuant to the Bond Indenture.

"Facilities" means all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures or equipment are located) used in connection therewith, of a Person.

"Favorable Opinion of Bond Counsel" means an unqualified Opinion of Counsel, which shall be Bond Counsel, to the effect that such action is permitted under the Bond Indenture and will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on a series of Tax-Exempt Bonds in gross income for federal income tax purposes, which Opinion may be based upon a ruling or rulings of the Internal Revenue Service, and may include any exceptions contained in the Opinion of Bond Counsel delivered upon original issuance of that series of Tax Exempt Bonds

"Financial Products Agreement" means a written agreement for the purpose of managing or reducing the Obligated Group's exposure to fluctuations in interest rates or for any other interest rate, investment, asset or liability managing purposes, entered into either on a current or forward basis by a Member and a Qualified Provider, that provides for an exchange of payments based on interest rates, ceilings or floors on such payments, options on such payments or any combination thereof, or any similar device and that does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof.

"Financial Product Payments" means payments periodically required to be paid to a counterparty by a Member pursuant to a Financial Products Agreement, including, without limitation, any regularly scheduled payments and any payments due upon termination of such Financial Products Agreement.

"Financial Product Receipts" means amounts periodically required to be paid to a Member by a counterparty pursuant to a Financial Products Agreement.

"Fiscal Year" means that period adopted by the Obligated Group Representative as the annual accounting period for which the Obligated Group Financial Statements will be prepared pursuant to the Master Indenture.

"Fitch" means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, 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 at the written direction of the Corporation, with written notice to the Authority, the Bond Insurer, the Liquidity Facility Provider and the Bond Trustee.

"Fund" means any of the funds established pursuant to the Bond Indenture.

“Governing Body” means the board of directors, the board of trustees or similar group in which the right to exercise the powers of corporate directors or trustees is vested.

“Government Obligations” means (a) United States Government Obligations or (b) evidences of a direct ownership in future interest or principal payments on United States Government Obligations, which United States Government Obligations are held in a custodial account by a custodian satisfactory to the Bond Trustee pursuant to the terms of a custody agreement, and which are rated “AAA” by S&P or Moody’s.

"Gross Revenues" shall mean all receipts, revenues, income and other moneys received by or on behalf of the Obligated Group including contributions, gifts, grants, bequests, pledges whether in the form of cash or other property, revenues derived from the operation of the Corporation’s Facilities, and all rights to receive the same, whether in the form of contract rights, accounts receivable, chattel paper or instruments, and the proceeds thereof and any insurance thereon, whether now owned or hereafter acquired by any Member of the Obligated Group; provided that gifts, grants, bequests, donations, contributions, gift annuity funds or the reserves therefor or pledges designated at the time of the making thereof by the donor thereof as being made for specific purposes, and the income therefrom to the extent required by such designation shall be excluded from Gross Revenues.

“Gross Revenue Accounts” means the deposit accounts or securities accounts now or hereafter designated as “Gross Revenue Accounts” and established pursuant to the Master Indenture.

“Guaranty” means all loan commitments and all obligations of any Member guaranteeing in any manner whatever, whether directly or indirectly, any obligation of any other Person which would, if such other Person were a Member, constitute Indebtedness.

“Holder” means, with respect to the Master Indenture, the registered owner of any Obligation in registered form or the bearer of any Obligation in coupon form which is not registered or is registered to bearer, and, whenever used in the Bond Indenture, means the Person in whose name such Bond is registered.

“Immaterial Affiliates” means Persons whose combined total net assets, as shown on their financial statements for their most recently completed fiscal year, were less than 10% of the combined or consolidated net assets of the Obligated Group (including the net assets of such Persons) for the most recently completed Fiscal Year.

“Indebtedness” means any indebtedness or obligation of any Member for borrowed money as determined in accordance with generally accepted accounting principles, including, without limitation, 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, except for obligations of a Member to another Member; provided, however, that if more than one Member will be obligated to pay any obligation, for purposes of any computations or calculations under the Master Indenture, such obligation will be included only one time.

“Letter of Credit” means any initial irrevocable direct pay letter of credit issued by the initial Letter of Credit Issuer, or any Substitute Letter of Credit.

“Letter of Credit Agreement” means the Letter of Credit and Reimbursement Agreement dated as of February 1, 2008, as supplemented and amended, between the Corporation and the Letter of Credit Issuer, or any similar agreement executed by the Corporation in connection with the delivery of a Substitute Letter of Credit to the Bond Trustee.

“Letter of Credit Issuer” means JPMorgan Chase Bank, N.A., as issuer of the initial Letter of Credit, or any other financial institution which hereafter issues a Substitute Letter of Credit.

“Lien” means any mortgage or pledge of, or security interest in, or lien or encumbrance on, any Property, excluding Liens applicable to Property in which any Member has only a leasehold interest unless the Lien is with respect to such leasehold interest.

"Long-Term Indebtedness" means Indebtedness (which also may constitute Balloon Indebtedness or Put Indebtedness) having an original maturity greater than 1 year or renewable at the option of a Member for a period greater than 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 30 consecutive days during each calendar year.

"Management Consultant" means a firm which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Corporation or any Affiliate of the Corporation, and which is a professional consultant and having the skill and experience necessary to render the particular report required by the provision hereof in which such requirement appears.

"Master Indenture" means that certain master indenture of trust, dated as of February 1, 2008, between the Corporation and the Master Trustee, as originally executed and as it may from time to time be supplemented, modified or amended in accordance with the terms thereof.

"Master Indenture Obligation Payments" means payments (however designated) required under any Obligation then Outstanding that does not constitute Indebtedness.

"Master Trustee" means U.S. Bank, National Association, a national banking association organized and existing under and by virtue of the laws of the United States of America and any other corporation or association that may be co-trustee with U.S. Bank, National Association, or any successor, as successor to said trustee or co-trustee in the trusts created under the Master Indenture.

"Material Members" means the Members whose combined total net assets, as shown on their financial statements for their most recently completed fiscal year, were equal to or greater than 90% of the combined or consolidated net assets of the entire Obligated Group for the most recently completed Fiscal Year of the Obligated Group.

"Maximum Annual Debt Service" means the highest total Annual Debt Service for the current or any succeeding Fiscal Year.

"Maximum Debt Service Coverage Ratio" means, for any period of time, the ratio determined by dividing Income Available for Debt Service for that period by Maximum Annual Debt Service.

"Member" or "Members" means the Corporation and each other Person that is then obligated under the Master Indenture.

"Non-Recourse Indebtedness" means any Indebtedness (i) which is secured by a Lien, liability for which is effectively limited to the real property, improvements or equipment acquired with such Non-Recourse Indebtedness and the income therefrom, with no recourse directly or indirectly to any Member, and (ii) which is not a general obligation of any Member.

"Obligated Group" means the Corporation and each other Person that becomes and is a Member of the Obligated Group pursuant to the terms of the Master Indenture.

"Obligated Group Financial Statements" has the meaning set forth in the Master Indenture.

"Obligated Group Representative" means the Corporation or such other Member (or Members acting jointly) as may have been designated pursuant to written notice to the Master Trustee executed by all of the Members.

"Obligation" means any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of each Member, which has been authenticated by the Master Trustee, and which may be in any form set forth in a Related Supplement, including but not limited to bonds, debentures, notes, reimbursement agreements, loan agreements, guarantees, leases and Financial Products Agreements. Reference to a Series of Obligations or to Obligations of a Series means a Series of Obligations or Obligations of a Series issued pursuant to a single Related Supplement.

"Obligation No. 1" means the obligation issued under the Master Indenture and Supplement No. 1 evidencing the Obligated Group's obligation to make Loan Repayments.

"Obligation No. 2" means the obligation issued under the Master Indenture and Supplement No. 1 evidencing the Obligated Group's obligation to make payments to the Letter of Credit Issuer pursuant to the Letter of Credit Agreement.

"Obligation No. 3" means the obligation issued under the Master Indenture and Supplement No. 1 evidencing the Obligated Group's obligation to make Financial Product Payments to Morgan Stanley Capital Services, Inc.

"Obligation No. 4" means the obligation issued under the Master Indenture and Supplement No. 1 evidencing the Obligated Group's obligation to make Financial Product Payments to KBC Bank N.V., New York Loan Branch.

"Official Statement" means an official statement prepared in connection with the issuance and sale of the Bonds, as supplemented by that certain Reoffering Circular dated as of February 4, 2008.

"Opinion of Bond Counsel" means a written opinion signed by an attorney or firm of attorneys experienced in the field of public finance whose opinions are generally accepted by purchasers of obligations issued by or on behalf of a Government Issuer.

"Outstanding," when used with reference to Obligations or Indebtedness, means, as of any date of determination, all Obligations or Indebtedness, as appropriate, theretofore issued or incurred and not paid and discharged other than (a) Obligations theretofore cancelled by the Master Trustee or delivered to the Master Trustee for cancellation, (b) Obligations in lieu of which other Obligations have been authenticated and delivered or have been paid pursuant to the provisions of a Related Supplement regarding mutilated, destroyed, lost or stolen Obligations unless proof satisfactory to the Master Trustee has been received that any such Obligation is held by a bona fide purchaser, (c) any Obligation held by any Member, (d) any Obligation that secures Related Bonds, if the Related Bonds are no longer outstanding under the terms of the Related Bond Indenture, and (e) Indebtedness deemed paid and no longer outstanding pursuant to the terms thereof; provided, however, that if two or more obligations which constitute Indebtedness represent the same underlying obligation (as, for example, when an Obligation secures an issue of Related Bonds and another Obligation secures repayment obligations to a bank under a letter of credit which secures such Related Bonds), for purposes of the various financial covenants contained in the Master Indenture, but only for such purposes, only one of such Obligations will be deemed Outstanding and the Obligation so deemed to be Outstanding will be that Obligation that produces the greater amount of debt service to be included in the calculation being made.

"Permitted Encumbrances" means and include:

(i) Any lien or encumbrance created or incurred in the ordinary course of business which does not secure, directly or indirectly, the repayment of borrowed money or the payment of installment sales contracts or capital leases individually or in the aggregate, and which does not materially impair the value or the utility of the property subject to such lien or encumbrance.

(ii) Liens arising by reason of good faith deposits with any obligor in connection with tenders, leases or real estate, bid or contracts (other than contracts for the payment of money), deposits by any obligor to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges.

(iii) Statutory rights of the United States of America to recover against any obligor by reason of any Federal loan, grant or subsidy made available to a Member and similar rights under state statutes.

(iv) Any lien arising by reason of deposits to enable any obligor to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, pension or profit-sharing plans, or other social security, or to share in the privileges or benefits required for companies participating in such arrangements.

(v) Any judgment lien against any obligor so long as such judgment is being contested and execution thereon is stayed and so long as such judgment lien will not materially interfere with or impair the operations conducted on all property.

(vi) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any property, (ii) any liens on any property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such property, which are not due and payable or which are being contested and execution thereon is stayed or which have been due for less than 90 days, and (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances and irregularities in the title of any property that do not materially impair the use of such property in any manner.

(vii) Any lien on the property of the Corporation that is existing on the Closing Date, provided that no lien so described may be extended, renewed or replaced by another lien, nor may it be modified to apply to any Property of any obligor not subject to such lien on the Closing Date, unless the lien qualifies as a Permitted Encumbrance; and provided further that no additional indebtedness may be incurred that is secured by such lien unless the foregoing conditions are met.

(viii) Any liens on pledges of grants or gifts which secure payment of Short-Term Indebtedness.

(ix) Any lease and leaseback, lien security interest or similar arrangements entered into by a Member with an issuer, to the extent that such arrangement is required by law in connection with the issuance of bonded indebtedness.

(x) Any lien with respect to property acquired after the Closing Date, which lien either secures the purchase price of such property or is a lien to which such property is subject at the time of its acquisition.

(xi) Any lien imposed by the grantor, expressed or implied, on property of an obligor received as a gift, grant or bequest, pursuant to the terms thereof.

(xii) Liens on moneys deposited by patients or others with a Member as security for, or as prepayment for, the cost of patient care; or any rights of residents of life care or similar facilities to endowment or similar funds deposited by or on behalf of such residents.

(xiii) Operating leases or ground leases of five years or less whereunder any obligor is the lessor; or any license or other use agreement made with respect to property where revenues generated inure to the benefit of a Member.

(xiv) Any lien on money (or the investment made with such money) held in any depreciation reserve, debt service reserve, construction, debt service or similar fund and granted by an obligor to secure payment of indebtedness (including any commitment indebtedness, whether or not then drawn upon); and any lien on money (or the investment made with such money) held in any escrow or similar fund to defease indebtedness.

(xv) Liens securing non-recourse Indebtedness.

(xvi) Any lien on property (other than real estate) in the nature of a purchase money security interest resulting from installment sale agreements or borrowings, financing leases, or similar agreements relating to the acquisition of property; or liens of a lessee or a vendee on the property being leased or sold under a lease, installment sale or similar agreement.

(xvii) Such minor defects and irregularities of title as normally exist with respect to property similar in character to the property involved, and which do not materially adversely affect the value of or materially impair the property affected thereby.

(xviii) Any lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof and liens on or in property given, bequeathed or devised to the owner thereof existing at the time of such gift, bequest or devise, provided that (i) such liens attach solely to the property which is the subject of such gift, bequest or devise, and (ii) the indebtedness secured by such liens is not assumed by a Member.

(xix) The Deed of Trust.

(xx) Liens securing Indebtedness the aggregate value of which shall not exceed 10% of the value of all Property.

(xxi) The lien and charge of the Bond Indenture and the Loan Agreement.

(xxii) 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 its board of directors, are adequate.

(xxiii) Present or future valid zoning laws and ordinances.

(xxiv) Statutory liens arising in the ordinary course of business which are not delinquent or are being contested in good faith by a Member.

(xxv) 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 healthcare industry.

(xxvi) Any other liens and encumbrances shown in a policy of title insurance issued on the Closing Date by Commonwealth Land Title Company or which are otherwise specifically approved in writing by the Bond Insurer and the Holder of Obligation No. 2.

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

"Primary Obligor" means the Person who is primarily obligated on an obligation.

"Property" means: (i) any and all rights, titles and interests in and to any and all real property of any Member of the Obligated Group; (ii) all buildings and structures thereon and fixtures and improvements thereto, whether now existing or hereafter constructed, installed or acquired; (iii) all tangible personal property, whether now existing or hereafter acquired, and used in, around or about the real property of any Member of the Obligated Group; (iv) cash and investments; and (v) intangible personal property, wherever situated.

"Put Date" means (a) any date on which an owner of Put Indebtedness may elect to have such Put Indebtedness paid, purchased or redeemed by or on behalf of the underlying obligor prior to the stated maturity date or (b) any date on which Put Indebtedness is required to be paid, purchased or redeemed from the owner by or on behalf of the underlying obligor (other than at the option of the owner) prior to the stated maturity date, other than pursuant to any mandatory sinking fund or other similar fund or other than by reason of acceleration upon the occurrence of an event of default.

"Put Indebtedness" means Indebtedness that is (a) payable or required to be purchased or redeemed by or on behalf of the underlying obligor, at the option of the owner thereof, prior to its stated maturity date or (b) payable or required to be purchased or redeemed from the owner by or on behalf of the underlying obligor (other than at the option of the owner) prior to its stated maturity date, other than pursuant to any mandatory sinking fund or other similar fund or other than by reason of acceleration upon the occurrence of an event of default.

"Related Bonds" means the revenue bonds, certificates of participation or other obligations issued or authorized to be executed and delivered by any Government Issuer, pursuant to a single Related Bond Indenture, the proceeds of which are loaned or otherwise made available to a Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer or a Related Bond Trustee.

"Related Bond Indenture" means any indenture, bond resolution, trust agreement or other comparable instrument pursuant to which a series of Related Bonds is issued or executed and delivered.

"Related Bond Issuer" means the Government Issuer of any issue of Related Bonds.

"Related Bond Trustee" means the trustee and its successors in the trusts created under any Related Bond Indenture, and if there is no such trustee, means the Related Bond Issuer.

"Related Supplement" means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture.

"Required Payment" means any payment required to be made by any Member under the Master Indenture, any Related Supplement or any Obligation, whether at maturity, by acceleration, upon proceeding for redemption or otherwise.

"Secured Short-Term Indebtedness" means Short-Term Indebtedness secured by a Lien on accounts receivable of the Members.

"Short-Term Indebtedness" means all Indebtedness which has an original term less than or equal to 1 year and which is not renewable or extendable at the option of a Member to a date or for a term greater than 1 year from the date of original incurrence or issuance unless, by the terms of such Indebtedness, no Indebtedness is permitted to be outstanding thereunder for a period of at least 30 consecutive days during each calendar year.

"Subordinated Indebtedness" means Indebtedness that by its terms is specifically subordinated to all Outstanding Obligations with respect to any security therefor and with respect to right of payment upon default of all Outstanding Obligations and all other obligations of a Member not containing such subordination provision.

"Supplement No. 1" means that certain first supplemental master trust indenture, dated as of February 1, 2008, between the Members of the Obligated Group and the Master Trustee, pursuant to which Obligation No. 1, Obligation No. 2, Obligation No. 3 and Obligation No. 4 are issued.

MASTER INDENTURE

General

The Master Indenture authorizes the issuance of Obligations by the Obligated Group, which may be unsecured general obligations or, to the extent permitted by the Master Indenture, secured by a claim on Property. Certain provisions of the Master Indenture are summarized below. This summary does not purport to be complete or definitive and is qualified by reference to the full terms of the Master Indenture.

Authorization, Issuance and Form of Obligations

From time to time when authorized by the Master Indenture and subject to the terms, conditions and limitations established in the Master Indenture, the Obligated Group Representative may authorize the issuance of an Obligation or a Series of Obligations by entering into a Related Supplement. The Obligation or the Obligations of any such Series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions of the Master Indenture and of any Related Supplement.

Each Related Supplement authorizing the issuance of an Obligation or a Series of Obligations will specify and determine the principal amount of such Obligation or Series of Obligations, the purposes for which such

Obligation or Series of Obligations are being issued, the form, title, designation, and the manner of numbering or denominations, if applicable, of such Obligation or Series of Obligations, the date or dates of maturity of such Obligation or Series of Obligations, the date of issuance of such Obligations, the rate or rates of interest (or method of determining the rate or rates of interest) borne by such Obligation or Series of Obligations, if applicable, and any other provisions deemed advisable or necessary by the Obligated Group Representative.

Covenants of the Members

Payments of Required Payments.

Each Member jointly and severally covenants to pay or cause to be paid promptly all Required Payments, including the principal of and premium, if any, and interest on each Obligation issued under the Master Indenture, at the place, on the dates and in the manner provided in the Master Indenture, in any Related Supplement and in said Obligations whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

Covenants as to Maintenance of Properties, Etc.

Each Member, respectively, covenants and agrees:

(a) That it will operate and maintain its Property, Plant and Equipment in accordance with all valid and applicable governmental laws, ordinances, approvals and regulations including, without limitation, such zoning, sanitary, pollution and safety ordinances and laws and such rules and regulations thereunder as may be binding upon it; provided, however, that no Member will be required to comply with any law, ordinance, approval or regulation as long as it will in good faith contest the validity thereof. Each Member, respectively, further covenants and agrees that it will maintain and operate its Property, Plant and Equipment and all engines, boilers, pumps, machinery, apparatus, fixtures, fittings and equipment of any kind in or that will be placed in any building or structure now or hereafter at any time constituting part of its Property, Plant and Equipment in good repair, working order and condition, and that it will from time to time make or cause to be made all necessary and proper replacements, repairs, renewals and improvements so that the operations of such Members will not be materially and adversely impaired.

(b) That it will pay and discharge all applicable taxes, assessments, governmental charges of any kind whatsoever, water rates, meter charges and other utility charges which may be or have been assessed or which may have become liens upon the Property, Plant and Equipment, and will make such payments or cause such payments to be made, respectively, in due time to prevent any delinquency thereon or any forfeiture or sale of the Property, Plant and Equipment or any part thereof, and, upon request, will furnish to the Master Trustee receipts for all such payments, or other evidences satisfactory to the Master Trustee; provided, however, that no Member will be required to pay any tax, assessment, rate or charge as provided in the Master Indenture as long as it will in good faith contest the validity thereof, provided that such Member will have set aside reserves with respect thereto that, in the opinion of the Governing Body of the Obligated Group Representative, are adequate.

(c) That it will pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations issued and Outstanding under the Master Indenture) whose validity, amount or collectibility is being contested in good faith.

(d) That it will at all times comply with all terms, covenants and provisions of any Liens applicable to such Member at such time existing upon its Properties or any part thereof or securing any of its Indebtedness, the failure to comply with which would have a material adverse effect on the operations of the Obligated Group or its Properties.

(e) That it will use its best efforts (as long as it is in its best interests consistent with prudent business practice) to maintain all permits, licenses and other governmental approvals necessary for the operation of its Properties.

(f) That it will not take any action or suffer any action to be taken by others that would result in the interest on any Related Bond issued as a tax-exempt obligation becoming subject to federal income taxation.

Insurance.

Insurance Required. Each Member of the Obligated Group agrees that it will maintain insurance, which may include one or more self-insurance programs, covering such risks and in such amounts as, in its judgment, are adequate to protect it and its properties and operations and as are, with respect to retirement housing activities and properties, customary for retirement housing corporations of similar size and character. Such insurance policies may include fire insurance, insurance coverage of boilers and other selected machinery items, general liability insurance and property damage coverage, comprehensive automobile liability insurance, workers' compensation coverage as required by the laws of the State, use and occupancy insurance covering loss of operating revenues by reason of the total or partial interruption of retirement housing and health care services provided by the Corporation, professional liability insurance protecting the Member against claims arising from any act or omission in the furnishing of retirement housing or health care services to any resident or patient, and fidelity bonds on officers and employees of the Member. Each Member covenants and agrees that each insurance policy (except liability, worker's compensation and employee dishonesty) shall name the Corporation, the Issuer, the Trustee and the Bond Insurer as insured parties, beneficiaries or loss payees; provided, however, that payments of the proceeds of such insurance shall be made exclusively to the Member, if the amount of the proceeds in each instance is less than one million dollars ($1,000,000). The Master Trustee shall have no responsibility to monitor such insurance. Each policy of insurance shall be written by an insurer licensed to do business in the State and rated in at least the "A" category by either S&P or A.M. Best Company, Inc. or any other insurer approved by the Insurer; provided, however, any insurance coverage required herein may be secured from an unrated insurer if approved by the Insurer. No Member shall self-insure for any property or casualty risks (other than automobile collision) under any circumstances, and may self-insure for liability only with the written consent of the Insurer. Any self-insurance shall be subject to annual review by Consultant (which must also be a licensed actuary for these purposes) and funding of self-insurance reserves consistent with the recommendations of the Consultant. All insurance policies required hereunder shall contain a standard mortgagee clause in favor of the Master Trustee and the general liability insurance policies shall be endorsed to show the Master Trustee as additional insured. All such policies, or a certificate or certificates of insurers that such insurance is in full force and effect, shall be deposited with the Insurer (together with receipts indicating that premiums are being paid on an annual or more frequent basis in accordance with the terms of each such policy) and, prior to expiration of any such policy, the Member shall furnish to the Bond Insurer satisfactory evidence (which may include an Officer's Certificate) that such policy has been renewed or replaced or is no longer required by the Master Indenture. All policies evidencing such required insurance shall provide for thirty (30) days prior written notice to the Member and the Bond Insurer of any cancellation, reduction in amount or material change in coverage, except in the event of nonpayment of premiums on such insurance in which case the policies may provide for ten (10) days for such prior written notice.

Insurance Consultant. The Obligated Group Representative shall, not less frequently than every two years (every year in the case of self-insurance), retain a Consultant and provide to the Master Trustee and each Holder a copy of the Consultant's report (which shall state that the recommended insurance coverage meets the standards of the Master Indenture and is available on a commercially reasonable basis) and all recommendations of the Consultant. All policies of insurance and bonds required by the Loan Agreement shall be in amounts and shall contain such provisions as comply with the written recommendations of the Consultant; provided that, notwithstanding any other provision, the Obligated Group shall not be required to provide insurance coverage which, in the written opinion of the Consultant, is for risks not normally covered or is in excess of standard requirements, if any, for facilities similar in size, location and nature to the Facilities. If the Consultant makes recommendations for the increase of any of the coverage, the Obligated Group Representative shall increase such coverage in accordance with such recommendations, subject to a good faith determination of the Obligated Group Representative's board of directors that such recommendations, in whole or in part, are in the best interests of the Obligated Group.

Casualty; Condemnation; Loss of Title. If any of the Facilities shall be wholly or partially destroyed or damaged by fire or other casualty covered by insurance required under the Master Indenture, or if any of the Facilities shall be wholly or partially condemned, taken or injured by any Person, including any Person possessing the right to exercise the power of (or a power in the nature of) eminent domain or transferred to such a Person, by

way of a conveyance in lieu of the exercise of such a power by such Person, or if any part of any of the Facilities shall be lost because of failure of title, the Obligated Group Representative covenants that it will promptly notify the Master Trustee and each Holder of such event and will take all actions and will do all things which may be necessary to enable recovery to be made upon such policies of insurance (including title insurance) or on account of such taking, condemnation, conveyance, damage, injury or loss of title in order that moneys due on account of losses suffered may be collected and paid to the Master Trustee and applied as provided herein. Any adjustment of loss or damage and any settlement or payment therefore, which may be agreed upon by the Corporation and the appropriate insurer or condemner or other Person, shall be evidenced to the Master Trustee and the Insurer by a certificate signed by the Obligated Group Representative. The Trustee may rely conclusively upon such certificate.

Proceeds of Hazard Insurance.

(i) Immediately after occurrence of loss or damage to the Facilities which is reasonably expected to exceed an amount equal to one percent (1%) of book value of the Obligated Group based on its most recent audited financial statements, the Obligated Group Representative shall notify the Master Trustee and the Holders thereof. The Obligated Group Representative shall engage the services of an architect, who promptly shall determine and advise the Trustee, the Bond Insurer and the Obligated Group Representative, in writing, whether it is practicable to repair, reconstruct or replace such damaged or destroyed or condemned or lost property and, if so, the estimated time and funds required for such repair, reconstruction or replacement; provided that the advice of the architect shall not be required if the estimated cost of repair, reconstruction or replacement, as set forth in reasonable detail in a Certificate delivered to the Master Trustee and the Holders, is less than one million dollars ($1,000,000). In the event that the amount of damage or destruction is in excess of five percent (5%) of book value of the Obligated Group and/or current value and/or affects more than five percent (5%) of operating revenues, the proceeds of insurance required by the Master Indenture shall be applied as provided in paragraphs (ii), (iii) and (iv), below.

(ii) If the architect shall advise that such repair, reconstruction or replacement is practicable, and if, within ninety (90) days from the receipt of the architect's report the Obligated Group Representative delivers to the Trustee and each Holder: (A) a written report of a Management Consultant or, if the estimated cost of repair, reconstruction or replacement, as set forth in reasonable detail in a Certificate of the Obligated Group Representative delivered to the Trustee and the Holders, is less than one million dollars ($1,000,000), a Certificate of the Obligated Group Representative, stating that, in the signer's opinion, based upon information provided by the Management Consultant or, if unavailable, based upon the Obligated Group Representative's best judgment of the net insurance proceeds anticipated, the Obligated Group will have sufficient funds from the net proceeds of insurance (including business income insurance and other available funds) to make Obligation Payments, to pay the cost of repairing, restoring or replacing the portion of the Facilities affected by such loss or damage and to pay all operating expenses until completion of the repair, reconstruction or replacement of such part of the Facilities which is affected by such loss or damage and for the first full Fiscal Year after such completion; (B) an executed construction contract for such work at a guaranteed maximum price or fixed price; (C) cash or an irrevocable letter of credit in an amount at least equal to the excess, if any, of the funds necessary for payment of the amounts due under such construction contract, over the available net insurance proceeds; and (D) the surety bonds and insurance during construction required under the Master Indenture; then the Obligated Group shall promptly proceed to repair, reconstruct and replace such part of the Facilities, including all fixtures, furniture, equipment and affects, to its original condition insofar as possible. The moneys required for such repair, reconstruction and replacement shall be paid: (x) from the net proceeds of insurance (other than proceeds of business income insurance which shall be applied as provided in paragraph (v) below) received by reason of such occurrence, with net proceeds (after deducting any reasonable expenses incurred by the Master Trustee or the Obligated Group in collecting the same, the "Net Insurance Proceeds") shall be deposited into an Insurance and Condemnation Proceeds Fund (referred to herein as the "Fund") or with any trustee selected by the Obligated Group Representative which qualifies as a successor trustee under the Master Indenture (in which case the term "Trustee," as used herein shall refer to such trustee), and (y) to the extent that such Net Insurance Proceeds are not sufficient, from moneys to be provided by the Obligated Group, which shall be deposited with the Trustee. The funds so deposited shall be maintained in a separate account and shall be disbursed by the Trustee only upon receipt by the Trustee of a requisition, numbered consecutively upwards from 1, signed by an Authorized Representative of the Obligated Group Representative and an architect (each a "Requisition") and which shall state (i) the name and address of the Person to whom the payment is to be made, (ii) the amount to be paid, (iii) the obligation on account of which the payment is to be made, showing the total obligation, any amount previously paid, and the unpaid balance, (iv) that the obligation was properly incurred and is a proper charge against the Fund,

(v) that the amount requisitioned is due and unpaid, (vi) that with respect to items covered in the Requisition, there are no vendors', mechanics', or other liens, bailment leases or conditional sale contracts which should be satisfied or discharged before the payments as requisitioned therein are made, or which will not be discharged before the payments requisitioned therein are made, or which will not be discharged by such payment unless covered by the endorsement described below, (vii) that the amount remaining in the Fund after the payment of the Requisition will be sufficient to pay all remaining costs of the project, (viii) that the work can be completed within the time shown on the schedule, and (ix) that the work performed or materials supplied is satisfactory to the Obligated Group Representative. Such Requisition shall be accompanied by a Certificate of the Obligated Group Representative that it has received acknowledgments of payment and waivers of lien from all persons supplying labor or materials for all lienable work done and materials delivered through the date of the previous requisition and bills of sale or equivalent documentation for any personal property included in the Requisition. Notwithstanding the foregoing, if the estimated cost of such repair, reconstruction or replacement is less than one million dollars ($1,000,000), the Obligated Group Representative shall not be required to deliver the items referred to in clauses (i) through (iv) above, the Net Insurance Proceeds shall be paid to the Obligated Group and the Obligated Group shall promptly proceed with such repair, reconstruction or replacement. Any Net Insurance Proceeds remaining after the completion of such repair, replacement or reconstruction shall promptly, at the direction of the Obligated Group Representative's Authorized Representative, be transferred to the Master Trustee and applied to extraordinary redemption of Obligations.

(iii) Notwithstanding the foregoing, if the Management Consultant advises in a written report delivered to the Master Trustee and the Holders that (i) the Facilities can continue to operate effectively with less than full repair, reconstruction and replacement thereof and the Obligated Group can continue to maintain the requirements of the Master Indenture for the next two full Fiscal Years, and (iii) there are not deficiencies in any of the funds established under the Related Bond Indenture, then any Net Insurance Proceeds remaining after the completion of partial repair, reconstruction or replacement (if any) shall promptly be transferred to the Master Trustee and applied to extraordinary redemption of Obligations pursuant to the Master Indenture.

(iv) If the architect advises that such repair, reconstruction or replacement is not practicable, or if the architect's report is not received within sixty (60) days of the occurrence or the Management Consultant's report and other documents described in subsection (b) above are not delivered within the required time period, then all Net Insurance Proceeds shall be deposited with the Master Trustee and applied to extraordinary redemption of Obligations pursuant to the Master Indenture or as otherwise approved by the Holders; provided however, that in the case of damage to or destruction of all or substantially all of the Facilities the Obligated Group shall pay to the Trustee an amount sufficient, together with the Net Insurance Proceeds, to prepay all Obligations Outstanding.

(v) The proceeds of business income insurance required by the Master Indenture shall be applied for the purposes described therein.

Eminent Domain. Immediately after the commencement of any condemnation or similar proceedings by a third party in the exercise of a power of eminent domain, or a power in the nature of eminent domain affecting the Facilities the Obligated Group shall notify the Trustee and the Holders in writing.

(i) Any such condemnation awards or other compensation received shall be applied as provided in paragraphs (ii) through (vi) below.

(ii) The proceeds of any condemnation award or other compensation paid by reason of a conveyance in lieu of the exercise of such power, with respect to all or substantially all the Facilities (after deducting any costs or expenses incurred by the Master Trustee or the Obligated Group in collecting the same, the "Net Condemnation Proceeds") shall be paid to the Master Trustee for application to extraordinary redemption of Obligations pursuant to the Master Indenture, and the Obligation Group shall pay to the Master Trustee prior to the redemption date any additional amount required to effect such redemption. Any Net Condemnation Proceeds received for a taking of less than substantially all of the Facilities shall be applied as provided in paragraphs (iii) through (vi) below.

(iii) Notwithstanding paragraph (iv) below, if the estimated cost of replacing or restoring the portion of the Facilities affected by such taking or conveyance is less than one million dollars ($1,000,000), the

Obligated Group shall not be required to deliver the items referred to in paragraph (iv) below, the Net Condemnation Proceeds shall be paid to the Obligated Group and the Obligated Group shall promptly proceed to replace or restore such portion of the Facilities; provided that the Obligated Group shall not be required to replace or restore such portion of the Facilities so long as the Obligated Group Representative delivers to the Trustee (i) a Certificate to the effect that such failure to replace or restore shall not affect the Obligated Group's ability to comply with the provisions of the Master Indenture (ii) an Opinion of Bond Counsel to the effect that such failure to replace or restore will not have an adverse effect on any exclusion from gross income for federal income tax purposes of the interest on any tax-exempt bonds.

(iv) If, within ninety (90) days of receipt of such condemnation award, or other compensation which is greater than one million dollars ($1,000,000), the Obligated Group Representative delivers to the Master Trustee and the Holders a written Statement of an architect stating such architect's estimate of the cost of replacing or restoring the portion of the Facilities affected by such taking or conveyance, and

(v) a Management Consultant's report or, if the estimated cost of replacement or restoration, as set forth in reasonable detail in a Certificate of the Obligated Group Representative delivered to the Trustee and the Holders is less than one million dollars ($1,000,000), a Certificate of the Obligated Group Representative, stating that, in the signer's opinion, the Obligated Group will have sufficient funds from the Net Condemnation Proceeds (and from proceeds of use and occupancy insurance and other available funds) to pay the cost of replacing or restoring the portion of the Facilities affected by such taking or conveyance and to pay all operating expenses until completion of the replacement or restoration of such portion of the Facilities which is affected by such taking or conveyance and for the first full Fiscal Year after such completion, then: (A) the Obligated Group Representative may elect to replace or restore the portion of the Facilities affected by such taking or reconveyance, in which event the Obligated Group shall promptly proceed to replace or restore such portion of the Facilities, including any fixtures, furniture, equipment and effects, to its original usefulness and condition insofar as possible (unless the Obligated Group Representative delivers to the Master Trustee and the Holders an Opinion of Bond Counsel to the effect that the Obligated Group's failure to replace or restore such portion of the Facilities to the original usefulness and condition will not have an adverse effect on any exclusion from gross income for federal income tax purposes of the interest on the Bonds), provided that the Corporation has delivered to the Master Trustee and the Holders (i) an executed construction contract for such work at a price not greater than the amount stated in such architect's report and (ii) cash or an irrevocable letter of credit in an amount equal to the funds, if any, required by such architect's report in excess of the available Net Condemnation Proceeds, and (iii) any surety bonds and insurance during construction required under the Loan Agreement. The moneys required for such replacement or restoration shall be paid: (x) from the Net Condemnation Proceeds which shall be deposited into a project fund and disbursed in accordance with the requisition procedure established in the Related Bond Indenture; and (y) to the extent that such proceeds are not sufficient from moneys to be provided by the Obligated Group; or (B) the Obligated Group Representative may elect to have all or part of such Net Condemnation Proceeds applied to the redemption of Outstanding Bonds in direct order of maturity, and the Corporation shall pay any additional amount required to effect such redemption; or (C) if the Statements of the architect and the Management Consultant required by this paragraph (vi) are not delivered within the required time period, then the Net Condemnation Proceeds shall be deposited with the Master Trustee and applied to the extraordinary redemption of Obligations pursuant to the Master Indenture, and the Corporation shall pay prior to the prepayment date any additional amount required to effect such redemption.

(vi) Any Net Condemnation Proceeds remaining after the completion of such replacement or reconstruction shall promptly at the direction of the Obligated Group Representative be transferred to the Trustee applied to the extraordinary redemption of Obligations pursuant to the Master Indenture.

(vii) Notwithstanding the foregoing, if the Management Consultant advises in a written report delivered to the Master Trustee and the Holders that (i) the Facilities can continue to operate effectively with less than full replacement or restoration of the portion of the Facilities affected by such taking or conveyance, (ii) the Obligated Group can continue to comply with the Master Indenture for the following two (2) full Fiscal Years, and (iii) there are no deficiencies in any of the funds established under the Related Bond Indenture, then any Net Condemnation Proceeds shall promptly be applied in accordance with paragraph (vi) above.

Negative Pledge.

Each Member, respectively, covenants and agrees that it will not create, assume or suffer to exist any Lien upon the Property and each Member, respectively, further covenants and agrees that if such a Lien is created or assumed, such Member will make or cause to be made effective a provision whereby all Obligations will be secured prior to or equally and ratably with any such Indebtedness or other obligation secured by such Lien; provided, however, that, notwithstanding the provisions of the Master Indenture, each Member may create, assume or suffer to exist Permitted Encumbrances.

Limitations on Additional Indebtedness.

Each Member, respectively, agrees that it will not incur any Additional Indebtedness except as follows:

(a) Obligations and liabilities under the Master Indenture, including any supplements or amendments thereto or hereto in connection with the execution and delivery of any Obligations pursuant to the Master Indenture;

(b) 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 a project fund under a Related Indenture or otherwise;

(c) Short-Term Indebtedness provided that it is incurred in the ordinary course of business in an aggregate principal amount not to exceed ten percent (10%) of Annual Operating Revenues for the most Recent Fiscal Year for which audited financial statements are available and (i) all such Short-Term Indebtedness shall be reduced to zero for a period of seven (7) consecutive days during each Fiscal Year, or it is reduced to an amount equal to three percent (3%) of the Obligated Group's Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available, for a period of twenty (20) consecutive days;

(d) Liabilities for contributions to self-insurance programs;

(e) Long-Term Indebtedness, provided that:

(i) The Debt Service Coverage Ratio, as certified by a written report of an Accountant which shall be filed with the Trustee for each of the two most recent Fiscal Years for which audited financial statements are available immediately preceding the date of incurrence of such long-term Indebtedness taking into account outstanding and proposed Long-Term Indebtedness was at least equal to 1.35 times Maximum Annual Debt Service on all outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, or

(ii) Income Available for Debt Service, as certified by a written report of an accountant which shall be filed with the Trustee, for each of the two most recent Fiscal Years for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.35 times Maximum Annual Debt Service on all Long-Term Indebtedness then outstanding; and

(iii) Income Available for Debt Service, as shown in a written feasibility report prepared by a Management Consultant and filed with the Trustee, 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 projected to be at least 1.45 times Maximum Annual Debt Service on all Long-Term Indebtedness proposed to be outstanding at the end of each such Fiscal Year;

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

(g) Non-Recourse Indebtedness, provided that such indebtedness does not encumber the Facilities and the aggregate principal amount of all Non-Recourse Indebtedness outstanding upon the incurrence of the Non-Recourse Indebtedness in question does not exceed 10% of the Obligated Group's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

(h) Refunding Indebtedness issued for the purpose of refunding Long-Term Indebtedness, provided that issuance of such Indebtedness does not result in an increase in Maximum Annual Debt Service;

(i) Guarantees, provided that the Indebtedness Guaranteed is permitted if it were the Indebtedness of Member and the Debt Service of the guarantee shall be calculated by multiplying the Debt Service for the guaranteed Indebtedness by: (i) 25% if the guaranteed entity has a Debt Service Coverage Ratio greater than 2.0, (ii) 50% if the guaranteed entity has a Debt Service Coverage Ratio of 1.5 to 2.0, (iii) 75% if the guaranteed entity has a Debt Service Coverage Ratio of 1.25 to 1.50, and (iv) 100% if the Debt Service Coverage Ratio of the guaranteed entity is below 1.25 or a Member has made a payment on the guaranteed entity's debt during any of the last three fiscal years. For purpose of this item (i), Debt Service Coverage Ratio is calculated with respect to the most recent fiscal year for which audited financial statements are available.

Calculation of Debt Service; Debt Service Coverage; Annual Rate Covenant.

(a) The Obligated Group shall operate the Facilities as a revenue producing continuing care retirement community. The Obligated Group 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 ending July 31, 2008, to produce a Debt Service Coverage Ratio of not less than 1.20 for such Fiscal Year.

(b) Within one hundred twenty (120) days after the end of each Fiscal Year, the Obligated Group Representative shall compute the Debt Service Coverage Ratio for such Fiscal Year and promptly furnish to the Master Trustee a Statement setting forth the results of such computation. The Obligated Group further covenants and agrees that if at the end of each Fiscal Year and thereafter, the Debt Service Coverage Ratio shall have been less than 1.20 for such Fiscal Year, it will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Obligated Group or the methods of operation of the Obligated Group which will result in producing the Debt Service Coverage Ratio required by Subsection (a), above, in the current Fiscal Year. The Obligated Group shall, 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.

(c) If the Obligated Group 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 herein for such Fiscal Year and it shall not constitute an Event of Default under the Master Indenture, notwithstanding that the Debt Service Coverage Ratio shall be less than the amount required under Subsection (a) above; unless the Debt Service Coverage Ratio is not met for two consecutive Fiscal Years or the Debt Service Coverage Ratio shall be less than 1.0 for any Fiscal Year. It is further provided that the preceding sentence shall not be construed as in any way excusing the Obligated Group from taking any action or performing any duty required under the Master Indenture or be construed as constituting a waiver of any other event of default under the Master Indenture.

(d) Notwithstanding the foregoing, the Obligated Group may permit the rendering of service at, or the use of, the Facilities without charge or at reduced charges, at the discretion of the Obligated Group, 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 Consultant.

Sale, Lease or Other Disposition of Property.

The Obligated Group covenants and agrees that no Member will sell, lease or otherwise dispose of any part of its assets except that it may:

(1) Sublease or license the use of its Facilities pursuant to a resident agreement or for use in performing services necessary for the use of the Obligated Group's facilities for senior residential and care services and related purposes in accordance with customary practices in the industry; or

(2) Remove, sell or dispose of operating assets in the ordinary course of business; or

(3) Remove, sell or dispose of operating assets up to an aggregate value equal to ten percent (10%) of fair market value of property, plant and equipment in any two consecutive fiscal years with or without consideration; or

(4) Sell, lease, donate, exchange or dispose of any non-operating assets (including cash and cash equivalents) with or without consideration in the ordinary course of business or with (i) an Officer's Certificate stating that the Obligated Group, immediately following the transfer or disposition, will have not les than 150 Days Cash on Hand; (ii) an Officer's Certificate stating that the Obligated Group, immediately following the transfer or disposition, will be able to issue at least one dollar of additional Long-Term Indebtedness; and (iii) an Officer's Certificate stating that the Deb Service Coverage Ratio of the Obligated Group, after giving effect to the transaction, will not be less than 1.35 and 65% of what it was prior to the transaction, or alternatively, with the consent of the Bond Insurer, the Debt Service Coverage Ratio will be higher than it was prior to the transaction; or

(5) Sell, lease, donate, exchange or dispose of any property to another Member; or to a Person that is not a Member if such Person shall become a Member simultaneously with such sale, lease or other disposition.

Consolidation, Merger, Sale or Conveyance.

Each Member, respectively, covenants that it will not consolidate or merge with any other corporation not a Member or sell or convey all or substantially all of its assets to any Person not a Member unless:

(a) After giving effect to the consolidation, merger, sale or conveyance, the successor or Surviving Corporation will be a Member, or, if not, the Surviving Corporation will be a corporation organized and existing under the laws of the United States of America or a State thereof and such Surviving Corporation will become a Member and will expressly assume in writing the due and punctual payment of all Required Payments of the disappearing corporation under the Master Indenture, according to their tenor, and the due and punctual performance and observance of all of the covenants and conditions of the Master Indenture by the execution of a Related Supplement delivered to the Master Trustee by such Surviving Corporation;

(b) There will have been delivered to the Master Trustee an Officer’s Certificate to the effect that no Member, immediately after the date of the proposed consolidation, merger, sale or conveyance, would be in default as a result of such consolidation, merger, acquisition, sale or conveyance in the performance or observance of any covenant or condition of the Master Indenture;

(c) So long as any Related Bonds which are tax-exempt obligations are Outstanding, there will have been delivered to the Master Trustee an Opinion of Bond Counsel to the effect that, under then existing law, the consummation of such consolidation, merger, sale or conveyance, in and of itself, would not cause interest payable thereon to be includable in gross income for federal income tax purposes and that such consolidation, merger, acquisition, sale or conveyance, and the assumption of rights and obligations thereafter, complies with the provisions of the Master Indenture;

(d) The Master Trustee will have received an Opinion of Counsel, in form and substance satisfactory to the Master Trustee, to the effect that (i) all conditions in the Master Indenture relating to such merger, consolidation, sale or conveyance have been complied with and it is proper for the Master Trustee to join in the

execution of any instrument required to be executed and delivered; (ii) the Surviving Corporation meets the conditions set forth in the Master Indenture and is liable on all Master Indenture Obligations then Outstanding; and (iii) such merger, consolidation, sale or conveyance will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred); and

(e) The Master Trustee will have received an Officer's Certificate to the effect that the Obligated Group would, immediately after such consolidation, merger, sale or conveyance and taking into account such consolidation, merger, sale or conveyance as if it had occurred on the first day of the full Fiscal Year preceding the date of such Officer's Certificate be able to incur $1.00 of Long-Term Indebtedness pursuant to the Master Indenture.

In case of any such consolidation, merger, sale or conveyance, and upon such assumption of obligations, the Surviving Corporation will be substituted for its predecessor in interest in all agreements, indentures, and Obligations then in effect, and the Surviving Corporation will, upon the request of the Master Trustee, execute and deliver to the Master Trustee such documents and endorsements as will be necessary in order to effect said substitution. From and after the effective date of such substitution as determined by the Master Trustee, the Surviving Corporation will, subject to the terms, conditions and limitations prescribed in the Master Indenture, be treated as though it were a Member at the date of the execution of the Master Indenture and will thereafter have the right to participate in transactions permitted under the Master Indenture to the same extent as the Members; and all transactions undertaken on behalf of a Surviving Corporation in all respects have the same legal rank and benefit under the Master Indenture as though undertaken by the Obligated Group in the absence of such consolidation, merger, sale or conveyance.

Membership in Obligated Group.

Additional Members may be added to the Obligated Group from time to time provided that:

(a) There will have been delivered to the Master Trustee a copy of a resolution of the proposed new Member which authorizes the execution of the Related Supplement referred to below and authorizes compliance with the terms of the Master Indenture;

(b) There will have been delivered to the Master Trustee a Related Supplement pursuant to which the proposed new Member agrees to become a Member, to be bound by the terms and restrictions imposed by the Master Indenture, and to be bound by Indebtedness represented by the Obligations;

(c) There will have been delivered to the Master Trustee an irrevocable power of attorney of the proposed new Member authorizing the execution of Obligations by the Obligated Group Representative;

(d) There will be delivered to the Master Trustee a written Opinion of Counsel to the proposed new Member, which opinion states that (i) the proposed new Member has taken all necessary action to become a Member, (ii) upon execution of a Related Supplement, the Master Indenture will constitute a valid and binding obligation of the proposed new Member enforceable in accordance with its terms, (iii) upon execution of a Related Supplement, such proposed new Member will be bound by the terms of the Master Indenture and (iv) the addition of such Member will not cause the Master Indenture or any Obligations to be subject to registration under federal or state securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred);

(e) There will be delivered to the Master Trustee a description of any existing Long-Term Indebtedness of the proposed new Member and a description of any Indebtedness which the proposed new Member plans to incur simultaneously with the execution of the Related Supplement;

(f) The Master Trustee will have received an Officer's Certificate to the effect that the Obligated Group would, immediately after the addition of the new Member to the Obligated Group and taking into account

such addition as if it had occurred on the first day of the full Fiscal Year preceding the date of such Officer's Certificate be able to incur $1.00 of Long-Term Indebtedness pursuant to the Master Indenture;

(g) There will have been delivered to the Master Trustee an Officer's Certificate to the effect that no Member, immediately after the addition of such new Member, would be in default in the performance or observance of any covenant or condition of the Master Indenture; and

(h) There will be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that the addition of such Member will not, in and of itself, cause interest payable on any Related Bonds which are tax-exempt obligations to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligations issued under the Master Indenture to be subject to registration under federal securities laws (unless such registration, if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended, (unless such qualification, if required, has occurred).

Withdrawal from Obligated Group.

The Corporation may not withdraw from the Obligated Group. Any other Member may withdraw from the Obligated Group and be released from further liability or obligation under the provisions of the Master Indenture, provided that:

(a) The Master Trustee will have received an Officer's Certificate to the effect that, immediately following withdrawal of such Member, no Member would be in default in the performance or observance of any covenant or condition of the Master Indenture;

(b) The Master Trustee will have received an Officer's Certificate to the effect that immediately after the withdrawal of such Member from the Obligated Group and taking into account such withdrawal as if it had occurred on the first day of the full Fiscal Year preceding the date of such Officer's Certificate, the Obligated Group would be able to incur $1.00 of Long-Term Indebtedness pursuant to the Master Indenture; and

(c) The Master Trustee will have received an Opinion of Bond Counsel to the effect that the withdrawal of such Member will not cause the interest payable on any Related Bonds which are tax-exempt obligations to be includable in gross income for federal income tax purposes, nor cause the Master Indenture nor the Obligation issued under the Master Indenture to be subject to registration under federal securities laws (unless such registration, if required, has occurred) nor subject to qualification under the Trust Indenture Act of 1939, as amended (unless such qualification, if required, has occurred).

Filing of Financial Statements, Reports and Other Information.

Each Member covenants that it will keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of such Member in accordance with generally accepted principles of accounting consistently applied, except as reflected in the notes thereto, and will furnish: (a) the financial statements, materials and notices required to be delivered to the each Related Bond Issuer, each Holder and the Master Trustee, and (b) any information reasonably requested by any Holder to the extent reasonably necessary to perform the Holder's monitoring evaluation, to the Holders. In addition to the foregoing, the Obligated Group Representative covenants that it will provide notification to the Holders in the event of any significant change in the financial condition of the Obligated Group and will deliver to the Holders the following:

(a) Annual audited financial statements of each Member within 150 days after the end of each Fiscal Year;

(b) Quarterly unaudited financial statements of the Members within forty-five (45) days after the end of each of fiscal quarter;

(c) A copy of the budget of each of the Members for the next succeeding fiscal year fifteen (15) days prior to the end of each Fiscal year;

(d) A copy of any audit or other material report of each of the Members within twenty (20) days of completion of such audit or report and thereafter as updated;

(e) A copy of any notice or report required to be given to the Master Trustee, the Holders or any other party to any of the documents executed in connection with the issuance of Related Bonds, including, without limitation, notice of any redemption of or defeasance of the Related Bonds, and any certificate rendered pursuant to such documents relating to the security for the Related Bonds;

(f) A copy of any information filed by any Member with any NRMSIR; and

(g) Such additional information as any Holder may reasonably request.

Each Member will permit the Holders and/or their representatives to discuss the affairs, finances and accounts of any Related Bond Issuer or any information the Holders may reasonably request regarding the security for the Related Bonds with appropriate officers of the Related Bond Issuer. The Obligated Group and the Related Bond Issuer will permit the Holders and/or their representatives to have access to and make copies of all books and records relating to the Related Bonds and the security therefor at any reasonable time.

Gross Revenue Account.

(a) Each Member agrees that, as long as any of the Obligations remain Outstanding, all of the Gross Revenues will be deposited as soon as practicable upon receipt in a deposit account or securities account designated as the Gross Revenue Accounts which the Obligated Group Representative will establish and maintain, subject to the provisions of the Master Indenture, at such banking institution as the Obligated Group Representative will from time to time designate, in writing, for such purpose and which has entered into an Account Control Agreement with the Members of the Obligated Group and the Master Trustee. As security for the payment of Required Payments and the performance by each of the Members of its other obligations under the Master Indenture, each Member pledges and assigns to the Master Trustee, and grants to the Master Trustee a security interest in, all its right, title and interest, whether now owned or hereafter acquired, in and to all Collateral, including the Gross Revenues and the Gross Revenue Accounts. Each of the Members will execute the Account Control Agreement, will execute and cause to be filed Uniform Commercial Code financing statements, and will execute and deliver such other documents (including, but not limited to, amendments to such Uniform Commercial Code financing statements) as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain the perfection of such security interest. Each Member irrevocably authorizes the Master Trustee to execute and file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the Collateral. Each Member also ratifies its authorization for the Master Trustee to have filed in any jurisdiction any like financing statements or amendments thereto if filed prior to the date of the Master Indenture. Each Member represents and warrants that it is a nonprofit public benefit corporation organized solely under the laws of the State of California and that its complete legal name is as set forth on the signature page of the Master Indenture or Related Supplement, as applicable, executed by such Member. Each Member covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives 30 days' notice of such change to the Master Trustee and (ii) before such change occurs it takes all actions as are necessary or advisable to maintain and continue the first priority perfected security interest of the Master Trustee in the Collateral.

(b) Gross Revenues and amounts in the Gross Revenue Accounts may be used and withdrawn by each Member at any time for any lawful purpose, except as otherwise provided in the Master Indenture. If an Event of Default has occurred and is then continuing, the Master Trustee will notify the Obligated Group Representative of such delinquency, and will be entitled to deliver an Order (as such term is defined in the Account Control Agreement) to each Depository Bank. Upon delivery of an Order with respect to the Gross Revenue Accounts, exclusive control over the Gross Revenue Accounts will be exercised by the Master Trustee as provided in the Account Control Agreement. All Gross Revenues will continue to be deposited in the Gross Revenue Accounts as described above and the Master Trustee will continue to exercise exclusive control over the Gross Revenue Accounts until the amounts on deposit in said account are sufficient to pay in full (or have been used to pay in full)

all Required Payments in default and until all other then-existing Events of Default known to the Master Trustee will have been made good or cured to the satisfaction of the Master Trustee or provision deemed by the Master Trustee to be adequate will have been made therefor. During any period that the Gross Revenue Accounts are subject to the exclusive control of the Master Trustee, the Master Trustee will use and withdraw from time to time amounts in said fund, to make Required Payments as such payments become due (whether by maturity, prepayment, redemption, acceleration or otherwise), and, if such amounts will not be sufficient to pay in full all such payments due on any date, then to the payment of debt service on Obligations, ratably, without any discrimination or preference, and to such other payments in the order which the Master Trustee, in its discretion, will determine to be in the best interests of the Holders of the Obligations, without discrimination or preference. During any period that the Gross Revenue Accounts are subject to the exclusive control of the Master Trustee, no Member will be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Master Trustee in its sole discretion so directs for the payment of current or past due operating expenses of such Member; provided, however, that Members may submit requests to the Master Trustee as to which expenses to pay and in which order. Each Member agrees to execute and deliver all instruments as may be required. Each Member further agrees that a failure to comply with the terms of the Master Indenture will cause irreparable harm to the Master Trustee from time to time of the Obligations, and will entitle the Master Trustee, with or without notice to the Obligated Group Representative, to take immediate action to compel the specific performance of the obligations of each of the Members as provided in the Master Indenture.

(c) Upon receipt of Gross Revenues, each Member covenants and agrees: (i) to deposit in all Gross Revenues in the Gross Revenue Accounts and not in any other fund or account; (ii) that the Gross Revenue Accounts will be held as a deposit or securities account at the Depository Bank; and (iii) that the Gross Revenue Accounts will not be moved from the Depository Bank without the prior written consent of the Master Trustee, which consent will not be unreasonably withheld.

Liquidity Covenant.

(a) On each January 31 and July 31, commencing with July 31, 2008, the Obligated Group shall maintain at least One Hundred Fifty (150) Days Cash On Hand.

(b) If the Obligated Group fails to maintain Days Cash on Hand as required in subsection (a), the Obligated Group Representative shall, within 20 days thereafter, employ a Management Consultant to make recommendations as to how to come into compliance with subsection (a) and such recommendations shall be implemented. If the Management Consultant has been engaged and such recommendations are being implemented, such failure to meet the Liquidity Test shall not constitute an Event of Default hereunder, unless the Liquidity Covenant is not met for an additional two (2) consecutive test periods or Days Cash on Hand declines below 100 days.

Defaults

Events of Default.

Event of Default means any of the following events:

(a) Failure on the part of the Obligated Group to make due and punctual payment of any Required Payment on an Obligation;

(b) Any Member will default in the payment of any Indebtedness (other than Non-Recourse Indebtedness or an Obligation) with an aggregate principal amount then Outstanding in excess of 5% of unrestricted net assets of the Obligated Group for the most recent Fiscal Year for which Obligated Group Financial Statements are available, whether such Indebtedness now exists or will hereafter be created, and any period of grace with respect thereto will have expired, or an event of default as defined in any mortgage, indenture or instrument under which there may be secured or evidenced any Indebtedness, whether such Indebtedness now exists or will hereafter be created, will occur and any period of grace with respect thereto will have expired; provided, however, that such default will not constitute an Event of Default within the meaning of the Master Indenture if within 30 days, or

within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced (i) any Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (ii) sufficient moneys are escrowed with a bank or trust company or a bond not objected to by the Master Trustee is posted for the payment of such Indebtedness;

(c) Any Member will fail duly to observe or perform any other covenant or agreement under the Master Indenture for a period of 30 days after the date on which written notice of such failure, requiring the same to be remedied, will have been given to the Obligated Group Representative by the Master Trustee or to the Obligated Group Representative and the Master Trustee by the Holders of 25% in aggregate principal amount of Outstanding Obligations except that, if such failure can be remedied but not within such 30 day period, such failure will not become an Event of Default for so long as the Obligated Group Representative will diligently proceed to remedy same in accordance with and subject to any directions or limitations of time established by the Master Trustee;

(d) A court having jurisdiction will enter a decree or order for relief in respect of any Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of any Member or for any substantial part of the property of any Member, or ordering the winding up or liquidation of its affairs, and such decree or order will remain unstayed and in effect for a period of 60 consecutive days;

(e) Any Member will commence a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law now or hereafter in effect, or will consent to the entry of an order for relief in an involuntary case under any such law, or will consent to the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or similar official) of any Member or for any substantial part of its property, or will make any general assignment for the benefit of creditors, or will fail generally to pay its debts as they become due or will take any corporate action in furtherance of the foregoing; or

(f) An event of default will exist under any Related Bond Indenture and any notice and/or cure period shall have expired.

Acceleration; Annulment of Acceleration.

(a) Upon the occurrence and during the continuation of an Event of Default under the Master Indenture, the Master Trustee may, and upon (i) the written request of the Holders of not less than 25% in aggregate principal amount of Outstanding Obligations or of any Holder if an Event of Default has occurred or (ii) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, the Master Trustee will, by notice to the Members, declare all Outstanding Obligations immediately due and payable. In such event, there will be due and payable on the Obligations an amount equal to the aggregate principal amount of all such Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, interest which accrues on such principal and interest to the date of payment.

(b) At any time after all Obligations will have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if (i) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices and other payments then due (other than the principal or other payments then due only because of such declaration) of all Outstanding Obligations, (ii) the Obligated Group has paid or caused to be paid or deposited with the Master Trustee moneys sufficient to pay the charges, compensation, expenses, disbursements, advances and liabilities of the Master Trustee and any paying agents, (iii) all other amounts then payable by the Obligated Group under the Master Indenture will have been paid or a sum sufficient to pay the same will have been deposited with the Master Trustee, and (iv) every Event of Default (other than a default in the payment of the principal or other payments of such Obligations then due only because of such declaration) will have been remedied, then the Master Trustee may annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment will extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Additional Remedies and Enforcement of Remedies.

(a) Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the written request of the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding or of any Holder if an Event of Default has occurred, upon being indemnified to its satisfaction therefor, will, proceed forthwith to protect and enforce its rights and the rights of the Holders under the Master Indenture by such suits, actions or proceedings as the Master Trustee, being advised by counsel, will deem expedient, including but not limited to:

(i) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations;

(ii) Suit upon all or any part of the Obligations;

(iii) Civil action to require any person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations;

(iv) Civil action to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of Obligations; and

(v) Enforcement of any other right or remedy of the Holders conferred by law or by the Master Indenture.

(b) Regardless of the happening of an Event of Default, the Master Trustee, if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding, will, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised will be necessary or expedient (i) to prevent any impairment of the security given under the Master Indenture by any acts which may be unlawful or in violation of the Master Indenture, or (ii) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Master Trustee, not unduly prejudicial to the interest of the Holders of Obligations not making such request.

Application of Moneys After Default.

During the continuance of an Event of Default, all moneys received by the Master Trustee pursuant to any right given or action taken under the provisions of the Master Indenture, after payment of any expenses necessary in the opinion of the Master Trustee to protect the interests of the Holders of the Obligations and payment of reasonable charges and expenses of the Master Trustee and the Bond Insurer (including reasonable fees and disbursements of its counsel) incurred in and about the performance of its powers and duties under the Master Indenture, will be applied as follows:

(a) Unless all Outstanding Obligations will have become or have been declared due and payable:

First: To the payment to the Persons entitled thereto of all installments of interest and, in the case of Financial Products Agreements, regularly scheduled payments then due on the Obligations in the order of the maturity or payment date of such installments, and, if the amount available will not be sufficient to pay in full any installment, installments, payment or payments maturing or coming due on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the Persons entitled thereto of the unpaid principal installments, termination and other payments (in the case of Financial Products Agreements), and any other Required Payments of any Obligations that will have become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amounts available will not be sufficient to pay in full all the principal installments, termination and other

payments and other Required Payments due on any date, then to the payment thereof ratably, according to the amounts of such installments or other payments due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If all Outstanding Obligations will have become or have been declared due and payable, to the payment of the principal and interest and other Required Payments then due and unpaid upon the Obligations without preference or priority of any installment or payment over any other installment or payment, or of any Obligation over any other Obligation, ratably, according to the amounts due, to the Persons entitled thereto, without any discrimination or preference.

(c) If all Outstanding Obligations will have been declared due and payable, and if such declaration will thereafter be rescinded and annulled under the provisions of the Master Indenture, then, subject to the provisions of the Master Indenture in the event that the principal of all Outstanding Obligations will later become due or be declared due and payable, the moneys will be applied in accordance with the provisions of the Master Indenture.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions of the Master Indenture, such moneys will be applied by it at such times, and from time to time, as the Master Trustee will determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Master Trustee will apply such moneys, it will fix the date upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates will cease to accrue. The Master Trustee will give such notices as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and will not be required to make payment to the Holder of any unpaid coupon or Obligation until such coupon or such Obligation and all unmatured coupons, if any, appertaining to such Obligation will be presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been paid under the provisions of the Master Indenture and all expenses and charges of the Master Trustee have been paid, any balance remaining will be paid to the Person entitled to receive the same; if no other Person will be entitled thereto, then the balance will be paid to the Members, their successors, or as a court of competent jurisdiction may direct.

Holders' Control of Proceedings.

If an Event of Default will have occurred and be continuing, notwithstanding anything in the Master Indenture to the contrary, the Holders of at least a majority in aggregate principal amount of Obligations then Outstanding will have the right, at any time, by any instrument in writing executed and delivered to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture, provided that such direction is not in conflict with any applicable law or the provisions of the Master Indenture (including indemnity to the Master Trustee) and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of Holders not joining in such direction and provided further that nothing in the Master Indenture will impair the right of the Master Trustee in its discretion to take any other action under the Master Indenture that it may deem proper and that is not inconsistent with such direction by Holders which it may deem proper and which is not inconsistent with such direction by Holders.

Waiver of Event of Default.

(a) No delay or omission of the Master Trustee or of any Holder of the Obligations to exercise any right or power accruing upon any Event of Default will impair any such right or power or will be construed to be a waiver of any such Event of Default or an acquiescence therein. Every power and remedy given by the Master Indenture to the Master Trustee and the Holders of the Obligations, respectively, may be exercised from time to time and as often as may be deemed expedient by them.

(b) The Master Trustee may waive any Event of Default which in its opinion will have been remedied before the entry of final judgment or decree in any suit, action or proceeding instituted by it under the provisions of the Master Indenture, or before the completion of the enforcement of any other remedy under the Master Indenture.

(c) The Master Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Obligations then Outstanding, will waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances set forth in the Master Indenture, a default in the payment of the principal of, premium, if any, or interest on or other payment with respect to any Obligation, when the same will become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations at the time Outstanding.

(d) In case of any waiver by the Master Trustee of an Event of Default under the Master Indenture, the Members, the Master Trustee and the Holders will be restored to their former positions and rights under the Master Indenture, respectively, but no such waiver will extend to any subsequent or other Event of Default or impair any right consequent thereon.

Supplements and Amendments

Supplements Not Requiring Consent of Holders.

The Obligated Group Representative, acting for itself and as agent for each Member, and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Related Supplements for one or more of the following purposes:

(a) To cure any ambiguity or formal defect or omission in the Master Indenture;

(b) To correct or supplement any provision in the Master Indenture which may be inconsistent with any other provision within the Master Indenture, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which will not materially and adversely affect the interests of the Holders;

(c) To grant or confer ratably upon all of the Holders any additional rights, remedies, powers or authority, or to add to the covenants of and restrictions on the Members;

(d) To qualify the Master Indenture under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect;

(e) To create and provide for the issuance of an Obligation or Series of Obligations as permitted under the Master Indenture;

(f) To obligate a successor to any Member as provided in the Master Indenture; or

(g) To add a new Member as provided in the Master Indenture; or

(h) To make any other change that does not materially adversely affect the interests of the Holders of any Obligation; or

(i) To effectuate the release of Property from the lien encumbering it if such Property is being sold as permitted under the Mater Indenture.

Supplements Requiring Consent of Holders.

(a) Other than Related Supplements and subject to the terms and provisions and limitations contained in the Master Indenture and not otherwise, the Holders of not less than a majority in aggregate principal amount of the Obligations then Outstanding will have the right, from time to time, to consent to and approve the execution, by the Master Trustee and by the Obligated Group Representative, acting for itself and as agent for each Member

(provided that each Member will have received written notice not less than fifteen (15) days prior to execution), of such Related Supplements as will be deemed necessary and desirable for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Master Indenture; provided, however, that nothing in the Master Indenture will permit or be construed as permitting a Related Supplement which would:

(i) Extend the stated maturity of or time for paying interest on any Obligation or reduce the principal amount of or the redemption premium or rate of interest or method of calculating interest payable on any Obligation, without the consent of the Holder of such Obligation;

(ii) Modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Indenture so as to affect the right of the Holders of any Obligations in default as to payment to compel the Master Trustee to declare the principal of all Obligations to be due and payable, without the consent of the Holders of all Obligations then Outstanding; or

(iii) Reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Related Supplement, without the consent of the Holders of all Obligations then Outstanding.

Satisfaction and Discharge of Master Indenture

If (i) the Members will deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which will have been mutilated, destroyed, lost or stolen and which will have been replaced or paid as provided in any Related Supplement) and not theretofore cancelled, or (ii) upon payment of all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation which have become due and payable, or (iii) the Members or any Person on behalf thereof will deposit with the Master Trustee (or with a bank or trust company pursuant to an agreement between a Member and such bank or trust company) as trust funds the amount of cash or Governmental Obligations or both, sufficient to pay at maturity or upon redemption all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including principal, interest and other Required Payments due or to become due to such date of maturity or redemption date, as the case may be, such sufficiency to be evidenced by a report of an Accountant, and, if in any case the Members will also pay or cause to be paid all other sums payable under the Master Indenture by the Members, then the Master Indenture will cease to be of further effect, and the Master Trustee, on demand of the Members and at the cost and expense of the Members, will execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. Each Member, respectively, agrees to reimburse the Master Trustee for any costs or expenses theretofore and thereafter reasonably and properly incurred by the Master Trustee in connection with the Master Indenture or such Obligations.

FIRST SUPPLEMENTAL MASTER INDENTURE

General

Supplement No. 1 provides for the issuance of the Initial Obligations, pursuant to the Master Indenture, and proves the terms and form thereof.

Creation of the Initial Obligations; Credits.

(a) There is created an Obligation of the Corporation to be known as and entitled "Casa de las Campanas, Inc. Obligation No. 1." Obligation No. 1 shall be dated as of February 1, 2008, shall be issued as a single note in the principal amount of $45,645,000, and shall be executed, authenticated and delivered in accordance with the Master Indenture. Obligation No. 1 shall bear interest with respect to the outstanding Bonds from February 7, 2008 in accordance with the terms of the Bond Indenture. The principal of Obligation No. 1 shall be payable with respect to the Outstanding Bonds on September 1, 2037, as set forth in the Bond Indenture, subject to prior redemption as set forth in the Bond Indenture. The Corporation shall receive certain credits against its required payments of principal of and interest on Obligation No. 1 to the extent set forth in the Master Indenture. Such

principal and interest are payable directly to the Bond Trustee. The Corporation shall give notice in writing of each such payment to the Master Trustee. Obligation No. 1 shall be an acceleratable instrument for purposes of the Master Indenture. Upon the occurrence of an Event of Default, the Holder of Obligation No. 1 shall be entitled, by notice to the Master Trustee and the Corporation, to require the Master Trustee to declare Obligation No. 1 immediately due and payable, subject to the provisions of the Master Indenture. The Holder of Obligation No. 1 shall also be entitled to consent to any acceleration of Obligation No. 1 in accordance with the Master Indenture and therefore Obligation No. 1 may not be accelerated by the Master Trustee without the consent of such Holder.

(b) There is created an Obligation of the Corporation to be known as and entitled "Casa de las Campanas, Inc. Obligation No. 2." Obligation No. 2 shall be dated as of February 1, 2008, shall be issued as a single note in the principal amount of $47,025, 343, or such other amount as may be due and owing under the Letter of Credit Agreement, and shall be executed, authenticated and delivered in accordance with the Master Indenture. Obligation No. 2 shall mature when all amounts payable by the Corporation pursuant to the Letter of Credit Agreement have been paid or discharged. Obligation No. 2 is issued to secure the Corporation's obligation to pay, in the manner and subject to the limitations set forth therein, to the Initial Letter of Credit Issuer amounts as required by the Letter of Credit Agreement. Obligation No. 2 shall bear interest and be payable in accordance with the requirements for payments due under the Letter of Credit Agreement. The Corporation shall receive certain credits against its required payments on Obligation No. 2 to the extent set forth in the Master Indenture. Such payments are payable directly to the Initial Letter of Credit Issuer. The Corporation shall give notice in writing of each such payment to the Master Trustee. Obligation No. 2 shall be an acceleratable instrument for purposes of the Master Indenture. Upon the occurrence of an Event of Default, the Holder of Obligation No. 2 shall be entitled, by notice to the Master Trustee and the Corporation, to require the Master Trustee to declare Obligation No. 2 immediately due and payable, subject to the provisions of the Master Indenture. The Holder of Obligation No. 2 shall also be entitled to consent to any acceleration of Obligation No. 2 in accordance with the Master Indenture and therefore Obligation No. 2 may not be accelerated by the Master Trustee without the consent of such Holder.

(c) There is hereby created an Obligation of the Corporation to be known as and entitled "Casa de las Campanas, Inc. Obligation No. 3." Obligation No. 3 shall be dated as of February 1, 2008, shall be issued as a single note, and shall be executed, authenticated and delivered in accordance with Article II of the Master Indenture. Obligation No. 3 is issued to secure the Corporation's obligation to pay, in the manner and subject to the limitations set forth therein, Morgan Stanley Capital Services ("MSCS") certain scheduled payments (but not termination payments) as required by the MSCS Financial Products Agreement. The Corporation shall receive certain credits against its required payments due on Obligation No. 3 to the extent set forth in the Master Indenture. Such amounts are payable directly to MSCS. The Corporation shall give notice in writing of each such payment to the Master Trustee. Obligation No. 3 shall be an acceleratable instrument for purposes of the Master Indenture. Upon the occurrence of an Event of Default the Holder of Obligation No. 3 shall be entitled, by notice to the Master Trustee and the Corporation, to require the Master Trustee to declare Obligation No. 3 immediately due and payable, subject to the provisions of the Master Indenture. The Holder of Obligation No. 3 shall also be entitled to consent to any acceleration of Obligation No. 3 in accordance with the Master Indenture and therefore Obligation No. 3 may not be accelerated by the Master Trustee without the consent of such Holder.

(d) There is created an Obligation of the Corporation to be known as and entitled "Casa de las Campanas, Inc. Obligation No. 4." Obligation No. 4 shall be dated as of February 1, 2008, shall be issued as a single note, and shall be executed, authenticated and delivered in accordance with the Master Indenture. Obligation No. 4 is issued to secure the Corporation's obligation to pay, in the manner and subject to the limitations set forth therein, KBC Bank N.V., New York Branch ("KBC") certain scheduled payments (but not termination payments) as required by the KBC Financial Products Agreement. The Corporation shall receive certain credits against its required payments due on Obligation No. 4 to the extent set forth in the Master Indenture. Such amounts are payable directly to KBC. The Corporation shall give notice in writing of each such payment to the Master Trustee. Obligation No. 4 shall be an acceleratable instrument for purposes of the Master Indenture. Upon the occurrence of an Event of Default the Holder of Obligation No. 4 shall be entitled, by notice to the Master Trustee and the Corporation, to require the Master Trustee to declare Obligation No. 3 immediately due and payable, subject to the provisions of the Master Indenture. The Holder of Obligation No. 3 shall also be entitled to consent to any acceleration of Obligation No. 4 in accordance with the Master Indenture and therefore Obligation No. 4 may not be accelerated by the Master Trustee without the consent of such Holder.

Purposes; Primary Obligor; Withdrawal from Corporation.

Obligation No. 1 is being issued to secure the obligation of the Corporation to make payments required under the Bond Indenture and the Loan Agreement. Obligation No. 2 is being issued to secure the obligation of the Corporation to make payments required under the Letter of Credit Agreement. Obligation No. 3 is being issued to secure the obligation of the Corporation to pay in the manner and subject to the limitations set forth in the Supplement No. 1, certain amounts as required by the MSCS Financial Products Agreement. Obligation No. 4 is being issued to secure the obligation of the Corporation to pay in the manner and subject to the limitations set forth in the Supplement No. 1, certain amounts as required by the KBC Financial Products Agreement. The Corporation is the obligor with respect to Obligation No. 1, Obligation No. 2, Obligation No. 3 and Obligation No. 4.

Credits.

(a) The Corporation shall receive credit for payment on Obligation No. 1, in addition to any credits resulting from payment or prepayment from other sources, as follows:

(i) on installments of interest on Obligation No. 1 in an amount equal to moneys deposited in the Interest Fund which amounts are available to pay interest on the Bonds to the extent such amounts have not previously been credited against payments on Obligation No. 1; and

(ii) on installments of principal of Obligation No. 1 in an amount equal to moneys deposited in the Bond Sinking Fund which amounts are available to pay the principal of the Bonds to the extent such amounts have not previously been credited against payments on Obligation No. 1.

(b) The Corporation shall receive credit for payment on Obligation No. 2, in addition to any credits resulting from payment or prepayment from other sources, as described in the Letter of Credit Agreement.

(c) The Corporation shall receive credit for payment on Obligation No. 3, in addition to any credits resulting from payment or prepayment from other sources, as described in the MSCS Financial Products Agreement to the extent such amounts have not previously been credited against payments on Obligation No. 3.

(d) The Corporation shall receive credit for payment on Obligation No. 4, in addition to any credits resulting from payment or prepayment from other sources, as described in the KBC Financial Products Agreement to the extent such amounts have not previously been credited against payments on Obligation No. 4.

Prepayment of Obligations

So long as all amounts which have become due under Obligation No. 1 have been paid, the Corporation shall have the right, at any time and from time to time, to pay in advance and in any order of due dates all or part of the amounts to become due under Obligation No. 1; provided, however, that such prepayment shall be in an amount sufficient to, and shall be used to, pay, redeem or defease an equal principal amount of the Bonds maturing on the same date pursuant to the Bond Indenture and provided further that no prepayment of Obligation No. 1 shall be made unless a prepayment of an equivalent amount of the payments could be made pursuant to the Bond Indenture. Notice of redemption of the Bonds in accordance with the terms of the Bond Indenture shall, without further notice or action by the Master Trustee or the Corporation, constitute notice of redemption of the corresponding amounts of principal of Obligation No. 1 and the same amounts of principal of Obligation No. 1 shall thereby become due and payable on the date of redemption of such Bonds and at a redemption price equal to the redemption price payable with respect to such Bonds. All prepayments shall be deposited upon receipt in the Bond Fund, as the case may be, each held by the Trustee pursuant to the Bond Indenture, at the request of and as determined by the Corporation. Notwithstanding any such prepayment, as long as any Bonds remain outstanding for purposes of and as defined in the Bond Indenture or any additional payments required to be made hereunder remain unpaid, the Corporation shall not otherwise be relieved of its obligations hereunder. Prepayments made under this subsection shall reduce the principal of and interest on Obligation No. 1 accordingly.

The Corporation shall have the right to prepay all or any part of the amounts due under Obligation No. 2 to the extent provided for in the Letter of Credit Agreement. Such prepayments shall be credited against amounts to become due on Obligation No. 2 as provided in the Supplement No. 1.

If prepayment of Obligation No. 1 or Obligation No. 2 is made in part, the Holder shall endorse on such Obligation a notice of such partial prepayment, which notice shall set forth, over the signature of such Holder, the payment date, the principal amount prepaid and the maturity prepaid. Such partial prepayment shall be valid upon payment of the amount thereof to or for the account of the Holder of such Obligation and the Corporation shall be fully released and discharged from all liability to the extent of such payment irrespective of whether such endorsement shall or shall not have been made upon such Obligation by the respective Holder thereof and irrespective of any error or omission in such endorsement.

The Corporation shall have the right to prepay all or any part of the amounts due under Obligation No. 3 to the extent termination is provided for in the MSCS Financial Products Agreement. Such prepayments shall be credited against amounts to become due on Obligation No. 3 as provided in the Supplement No. 1.

The Corporation shall have the right to prepay all or any part of the amounts due under Obligation No. 4 to the extent provided for in the KBC Financial Products Agreement. Such prepayments shall be credited against amounts to become due on Obligation No. 4 as provided in the Supplement No. 1.

Discharge of Obligations

Obligation No. 1 shall be deemed to be paid and discharged for all purposes of the Master Indenture if all of the Bonds are paid or provision for their payments has been made in compliance with the provisions of the Bond Indenture.

Obligation No. 2 shall be deemed to be paid and discharged for all purposes of the Master Indenture if all payments to be made under the Letter of Credit Agreement have been paid in full and the Letter of Credit Agreement and the Initial Letter of Credit issued thereunder shall each have been terminated in accordance with their respective terms.

Obligation No. 3 shall be deemed to be paid and discharged for all purposes of the Master Indenture if all payments to be made under the MSCS Financial Products Agreement have been paid or the MSCS Financial Products Agreement shall have been terminated in accordance with its terms.

Obligation No. 4 shall be deemed to be paid and discharged for all purposes of the Master Indenture if all payments to be made under the KBC Financial Products Agreement have been paid or the KBC Financial Products Agreement shall have been terminated in accordance with its terms.

The Master Indenture is amended to provide that so long as Obligation No. 1 is Outstanding and the Insurer has complied with each and every one of its obligations under the Policy in a timely manner, if an Event of Default shall have occurred and be continuing, the Insurer shall have the right, at any time, by any instrument in writing executed and delivered to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings thereunder, provided that such direction is not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of Holders not joining in such direction.

AMENDED AND RESTATED BOND INDENTURE

General

The Amended and Restated Bond Indenture (the "Bond Indenture") contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Bond Indenture for a full and complete statement of the Bond Indenture's provisions.

Funds

Project Fund. The Bond Trustee has established, shall maintain and hold in trust a separate fund designated as the "Project Fund." The moneys in the Project Fund shall be used to pay the costs of the Project.

Before any payment from the Project Fund shall be made, the Corporation shall file or cause to be filed with the Bond Trustee a requisition in the form provided in the Bond Indenture.

Upon receipt of each such requisition, the Bond Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. The Bond Trustee need not make any such payment if it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be paid, which has not been released or will not be released simultaneously with such payment. The Bond Trustee shall not be responsible for the accuracy or correctness of any requisition.

When the Project shall have been completed, the following shall be delivered to the Bond Trustee by the Corporation a Certificate 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). Upon the receipt of such certificate, the Bond Trustee shall, as directed by said Certificate of the Corporation, transfer any remaining balance in the Project Fund to the Redemption Fund. Upon such transfer and the final disbursement of any remaining funds, the Project Fund shall be closed.

Revenue Fund. The Authority shall establish with the Bond Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Revenue Fund." Loan Payments under the Loan Agreement, as and when received by the Bond Trustee, shall be deposited in the Revenue Fund and shall be held therein until disbursed as provided in the Bond Indenture. Pursuant to the assignment and pledge of Loan Payments under the Loan Agreement set forth in the granting clauses contained in the Bond Indenture, the Authority will direct the Corporation to make payments under the Loan Agreement directly to the Bond Trustee when and as the same become due and payable by the Corporation under the terms of the Loan Agreement.

If on or before the date any payment under the Loan Agreement is due, the Bond Trustee has not received such payment, the Bond Trustee shall give immediate telephonic notice promptly confirmed in writing to the Corporation of the nonpayment.

Interest Fund. The Authority shall establish with the Bond Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Interest Fund." The Bond Trustee shall also establish and maintain a separate and segregated account in the Interest Fund designated the "LOC Interest Account" (the "LOC Interest Account") and subaccounts thereunder with respect to each series of Bonds. Except for income thereon which is to be transferred to other funds under the Bond Indenture or to the Rebate Fund, and except as provided in the Bond Indenture, moneys on deposit in the Interest Fund may be used only for the purpose of paying the interest on the Bonds as the same becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Bond Indenture).

On or prior to three Business Days next preceding each Interest Payment Date, the Bond Trustee shall deposit in the Interest Fund from moneys in the Revenue Fund an amount which will be equal to the interest to

become due on the Bonds on such Interest Payment Date; provided, however, that no deposit pursuant to this paragraph need be made to the extent that there is a sufficient amount already on deposit in the Interest Fund (other than the LOC Interest Account) for that purpose. If sufficient funds to make the transfers described in this caption are not available in the Revenue Fund on the third Business Day preceding an Interest Payment Date, the Bond Trustee will give Immediate Notice thereof to the Corporation, promptly confirmed in writing. At the time of such notice, if the interest rate for all Interest Periods in the Interest Payment Period ending on such Interest Payment Date has not yet been determined, the Bond Trustee shall use an assumed interest rate of the Maximum Rate for Bonds bearing interest in such a Mode for the number of days during such period that such interest rate is not yet available.

In connection with any partial redemption or defeasance prior to maturity of the Bonds, the Bond Trustee may, at the written request of the Corporation, use any amounts on deposit in the Interest Fund (which amounts must be Eligible Moneys for Bonds bearing interest at a Daily Mode or Weekly Mode when a Liquidity Facility is in effect) in excess of the amount needed to pay the interest on the Bonds remaining outstanding on the first Interest Payment Date occurring on or after the date of such redemption or defeasance to pay or provide for the payment of the principal of and interest on the Bonds to be redeemed or defeased or as otherwise directed by the Corporation if the Bond Trustee and the Bond Insurer shall have received an Opinion of Bond Counsel to the effect that such transfer will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes.

Bond Sinking Fund. The Bond Trustee shall establish and maintain so long as any of the Bonds are outstanding a separate account to be known as the “Bond Sinking Fund.” The Bond Trustee shall also establish a separate account within the Bond Sinking Fund to be known as the "LOC Bond Sinking Fund" (the "LOC Principal Account") and subaccounts thereunder with respect to each series of Bonds. Except for income thereon which is to be transferred to other funds under the Bond Indenture or to the Rebate Fund, and except as provided in the Bond Indenture, moneys on deposit in the Bond Sinking Fund may be used only to pay principal of and to mandatorily redeem Bonds. Nothing contained in this paragraph shall limit the ability of (i) the Bond Insurer to be paid amounts due and owing to it with respect to the Bonds as subrogee of a Bondholder or (ii) the Letter of Credit Issuer to be paid amounts due and owing to it with respect to amounts drawn on the Letter of Credit to pay principal on the Bonds.

On or prior to three Business Days preceding each Maturity Date and each mandatory Bond Sinking Fund redemption date, after making the deposits required by the Bond Indenture, the Bond Trustee shall deposit in the Bond Sinking Fund from moneys in the Revenue Fund an amount which is equal to the principal of the Bonds next to become due by maturity or mandatory Bond Sinking Fund redemption. No such deposit need be made, however, to the extent that there is a sufficient amount already on deposit and available for such purpose in the Bond Sinking Fund to be applied to such next maturity or mandatory Bond Sinking Fund redemption payment. If sufficient funds to make the transfers to the Bond Sinking Fund described in this caption are not available in the Revenue Fund on the third Business Day preceding any Maturity Date or mandatory Bond Sinking Fund redemption date, the Bond Trustee will give Immediate Notice thereof to the Corporation, promptly confirmed in writing.

Moneys on deposit in the Bond Sinking Fund, other than income earned thereon which is to be transferred to other funds created under the Bond Indenture or to the Rebate Fund and except as otherwise provided by the Bond Indenture, shall be applied by the Bond Trustee to pay principal on the Bonds as it becomes due and to redeem the Bonds in accordance with the mandatory Bond Sinking Fund redemption schedule provided for in the Bond Indenture. In lieu of such mandatory Bond Sinking Fund redemption, the Bond Trustee shall, at the Written Request of the Corporation, purchase for cancellation an equal principal amount of Bonds of the series and maturity to be redeemed in the open market identified by the Corporation at prices specified by the Corporation not exceeding the principal amount of the Bonds being purchased plus accrued interest with such interest portion of the purchase price to be paid from the Interest Fund and the principal portion of such purchase price to be paid from the Bond Sinking Fund. In addition, the amount of Bonds to be redeemed on any date pursuant to the mandatory Bond Sinking Fund redemption schedule shall be reduced by the principal amount of Bonds of the series and maturity required to be redeemed which are acquired by the Corporation and delivered to the Bond Trustee for cancellation.

In connection with any partial redemption or defeasance prior to maturity of the Bonds, the Bond Trustee may, at the written request of the Corporation, use any amounts on deposit in the Bond Sinking Fund (which

amounts must be Eligible Moneys for Bonds bearing interest at a Daily or Weekly Mode when a Liquidity Facility is in effect) in excess of the amount needed to pay principal on the Bonds remaining outstanding on the first principal or mandatory sinking fund payment date occurring on or after the date of such redemption or defeasance to pay or provide for the payment the principal of and interest on the Bonds to be redeemed or defeased or as otherwise directed by the Corporation if the Bond Trustee and the Bond Insurer shall have received an Opinion of Bond Counsel to the effect that such transfer will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes.

Debt Service Reserve Fund. The Bond Trustee has established and shall maintain so long as any of the Bonds are outstanding a separate account to be known as the "Debt Service Reserve Fund." An initial deposit to the Debt Service Reserve Fund was made in accordance with the Bond Indenture. Except as described below, moneys on deposit in the Debt Service Reserve Fund shall only be used to make up any deficiencies in the Interest Fund (other than the LOC Interest Account) and the Bond Sinking Fund (other than the LOC Bond Sinking Account) in the order listed.

Qualified Investments (except those described in paragraph (x) in the definition thereof) on deposit in the Debt Service Reserve Fund shall have maturities not longer than ten (10) years and shall have an average life which is no longer than five (5) years.

All Qualified Investments in the Debt Service Reserve Fund shall be valued at their market value at least quarterly on or before March 1, June 1, September 1 and December 1 (or more frequently as may be reasonably requested by the Corporation) and such valuation shall be reported within thirty (30) days to the Corporation. Any amount in the Debt Service Reserve Fund in excess of 100% of the Debt Service Reserve Fund Requirement shall then be transferred to the Revenue Fund. To the extent that amounts in the Debt Service Reserve Fund are less than one hundred percent (100%) of the Debt Service Reserve Fund Requirement (not taking into account, for purposes of calculating the amount to be paid pursuant to this paragraph any withdrawals permitted by the first paragraph of this section, which shall be replenished from moneys on deposit in the Revenue Fund), the Corporation shall, following receipt of notice of such quarterly valuation, pay to the Bond Trustee, in three equal monthly payments, an amount sufficient to increase the balance in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement.

Notwithstanding the foregoing, the Corporation shall replenish any withdrawal from the Debt Service Reserve Fund in twelve equal monthly payments immediately succeeding such withdrawal. The Bond Trustee shall give notice to the Bond Insurer no later than two Business Days after the transfer of any amounts on deposit in the Debt Service Reserve Fund to the Interest Fund and/or the Bond Sinking Fund to pay interest on or principal of the Bonds.

In lieu of depositing and maintaining moneys in the Debt Service Reserve Fund during a Funding Period, the Corporation may, with the written consent of the Bond Insurer and the Letter of Credit Issuer, deliver to the Bond Trustee for deposit in the Debt Service Reserve Fund an irrevocable letter of credit issued by a domestic or foreign bank with a credit rating at the time of such delivery in one of the two highest Rating Categories of any Rating Agency. Any such letter of credit shall (i) permit the Bond Trustee to draw amounts thereunder which, together with any amounts on deposit in, or surety bond policy available to fund the Debt Service Reserve Fund, are not less than the Debt Service Reserve Fund Requirement and (ii) shall contain no restrictions on the ability of the Bond Trustee to receive payment thereunder other than a certification by the Bond Trustee that the funds drawn thereunder are to be used to pay debt service on the Bonds. Such letter of credit shall provide that the Bond Trustee shall receive payment thereunder prior to any expiration or termination thereof and whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied. The Bond Trustee shall make a drawing on such letter of credit (a) whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied and (b) 30 days prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys (including funds paid under an irrevocable surety bond) are available in the Debt Service Reserve Fund in the amount of the Debt Service Reserve Fund Requirement.

In lieu of depositing and maintaining moneys in the Debt Service Reserve Fund, the Corporation may, with the written consent of the Bond Insurer, deliver to the Bond Trustee for deposit in the Debt Service Reserve Fund an

irrevocable surety bond issued by a bond insurance company with a credit rating or claims-paying ability at the time of such delivery in one of the two highest Rating Categories of any Rating Agency. Any such surety bond shall (i) permit the Bond Trustee to obtain amounts thereunder which, together with any amounts on deposit in, or letter of credit available to fund, the Debt Service Reserve Fund, are not less than the Debt Service Reserve Fund Requirement and (ii) shall contain no restrictions on the ability of the Bond Trustee to receive payment thereunder other than a certification by the Bond Trustee that the funds drawn thereunder are to be used to pay debt service on the Bonds. Such surety bond shall provide that the Bond Trustee shall receive payment thereunder prior to any expiration or termination thereof and whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied. The Bond Trustee shall make a drawing under such surety bond (a) whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied and (b) 30 days prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys (including funds drawn under a letter of credit) are available in the Debt Service Reserve Fund in the amount of the Debt Service Reserve Fund Requirement.

If at any time one or more letters of credits and/or one or more surety bonds are on deposit in the Debt Service Reserve Fund, the Bond Trustee shall draw on the instruments on a pro rata basis.

In connection with any partial redemption or defeasance prior to maturity of the Bonds, the Bond Trustee may, at the request of the Corporation and upon notice to the Bond Insurer and the Letter of Credit Issuer, use any amounts on deposit in the Debt Service Reserve Fund (which amounts must be Eligible Moneys for Bonds bearing interest at a Daily Mode or Weekly Mode when a Liquidity Facility is in effect) in excess of the Debt Service Fund Requirement after such redemption to pay the principal of or the principal portion of the Redemption Price of said Bonds to be redeemed or defeased (or to reimburse the Letter of Credit Issuer for amounts drawn under the Letter of Credit to pay such principal portion of the redemption price) or as otherwise directed by the Corporation if the Bond Trustee and the Bond Insurer shall have received an Opinion of Bond Counsel to the effect that such transfer will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes.

Redemption Fund. The Authority shall establish with the Bond Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Redemption Fund." In the event of (i) prepayment by or on behalf of the Corporation of amounts payable under the Loan Agreement, including prepayment with condemnation or insurance proceeds or proceeds of a sale consummated under threat of condemnation, or (ii) deposit with the Bond Trustee by the Corporation or the Authority of moneys from any other source for redeeming Bonds or the purchase of Bonds for cancellation, except as otherwise provided in the Bond Indenture, such moneys shall be deposited in the Redemption Fund. Moneys on deposit in the Redemption Fund shall be used first, to make up any deficiencies existing in the Interest Fund and the Bond Sinking Fund (in the order listed) and second, if such amounts are Eligible Moneys for Bonds bearing interest at a Daily or Weekly Mode when a Liquidity Facility is in effect, for the redemption or purchase of Bonds in accordance with the provisions of the Bond Indenture.

Rebate Fund. Section 148(f) of the Code, as implemented by Sections 1.148 0 to 1.148 11 of the Income Tax Regulations (the "Rebate Provisions") requires that, among other requirements and with certain exceptions, the Authority pay to the United States of America the Rebate Amount owed with respect to the Bonds. The Corporation shall timely make or have made all necessary calculations of the Rebate Amount as required to comply with the requirements of the Bond Indenture and the Rebate Provisions and shall deposit or cause the Bond Trustee to deposit into the Rebate Fund from investment earnings on moneys deposited in the other funds and accounts created hereunder, or from any other funds held by the Bond Trustee and available for such purpose, or from other moneys paid by the Corporation to the Bond Trustee for such purpose, the amount necessary to increase the balance in the Rebate Fund to the Rebate Amount. The Corporation shall annually certify in writing the Rebate Amount, if any (and if none is due, that none is due), and the calculations determining the same to the Bond Trustee, and shall instruct the Bond Trustee in writing to make from the Rebate Fund (or to the extent necessary, from other funds of the Corporation delivered to the Bond Trustee) all required payments to the United States of America of the Rebate Amount as shall be required to satisfy the Rebate Provisions, and to the extent the funds held by the Bond Trustee in the Rebate Fund are not sufficient to make payments of such Rebate Amount, the Corporation shall pay to the Bond Trustee an amount necessary to make up such deficiency. In complying with the foregoing, the Corporation may rely upon any instructions from and any Opinions of Bond Counsel, including, without limitation, a letter to be delivered by Bond Counsel to the Corporation and the Bond Trustee on the date of issuance of the Bonds, and upon

any certificates, opinions or calculations prepared by certified public accountants or other consultants reasonably selected by the Corporation.

The Authority and the Bond Trustee shall cooperate with the Corporation in complying with the requirements summarized here and shall promptly provide to the Corporation, upon its request, any information in the possession of the Authority or the Bond Trustee concerning the investment of Gross Proceeds (as defined in the next sentence) of any Series of Bonds and all other information in the possession of the Authority or the Bond Trustee, of benefit to the Corporation in complying with the requirements described herein. "Gross Proceeds" for this purpose include (a) proceeds of any Series of Bonds, (b) amounts received from the Corporation pursuant to the Loan Agreement with respect to that Series of Bonds, (c) all funds and accounts subject to the lien of the Bond Indenture allocable to that Series of Bonds, and (d) other amounts that the Corporation may advise the Bond Trustee to treat as Gross Proceeds, and investment earnings on all of the foregoing.

Prior to making any distribution from the Rebate Fund held under the Bond Indenture, the Bond Trustee shall determine, from written calculations provided hereunder by the Corporation, whether funds remaining therein subject to the terms of the Bond Indenture shall be sufficient to pay the Rebate Amount when due and shall advise the Corporation of the deficiency, if any, which the Corporation shall promptly pay to the Bond Trustee. The Corporation shall provide the Bond Trustee, along with calculations, directions with regard to payment of the Rebate Amount. Payments to be made to the United States of America as required hereunder may be made directly by the Bond Trustee from the Rebate Fund, or any other fund or account held under the Bond Indenture, or from funds provided by the Corporation upon, and in such amounts as provided in written instructions from the Corporation to the Bond Trustee, notwithstanding any other provisions herein to the contrary.

If any amount allocable to the Bonds shall remain in the Rebate Fund after payment in full of the Bonds and after payment in full to the United States of the Rebate Amount with respect to that Series of Bonds in accordance with the terms hereof, the Bond Trustee shall, upon the written request of the Corporation, distribute such amount to the Corporation.

The obligation to pay the Rebate Amount to the United States and to comply with all other requirements summarized herein shall survive the defeasance or payment in full of the Bonds.

Under no circumstances whatsoever shall the Bond Trustee be liable to the Authority, the Corporation or any Bondholder for any loss of the status of interest on the Bonds as excludable from gross income for federal income tax purposes, or any claims, demands, damages, liabilities, losses, costs or expenses resulting therefrom or in any way connected therewith, resulting from a failure to comply with Section 148(f) of the Code so long as the Bond Trustee has acted in accordance with the written directions of the Corporation, as authorized under the Bond Indenture.

Investment of Funds

Upon telephonic instructions immediately followed by a Written Request of the Corporation filed with the Bond Trustee, moneys in the Revenue Fund, Interest Fund, Bond Sinking Fund, Debt Service Reserve Fund, Redemption Fund, Project Fund and Expense Fund shall remain invested, to the extent possible, at all times until the moneys therein are required to be used and shall be invested in Qualified Investments. Investments on deposit in all funds and accounts shall be valued at market value at lease quarterly. If the Corporation fails to file such a Written Request with the Bond Trustee, moneys in such funds shall be invested in Qualified Investments described in paragraph (v) of the definition thereof. Such investments shall be made so as to mature on or prior to the date or dates that moneys therefrom are anticipated to be required; provided that amounts on deposit in the Debt Service Reserve Fund (other than a surety bond or letter of credit) shall have an aggregate weighted term to maturity not greater than five years (except with respect to Qualified Investments described in paragraph (x) of the definition thereof) and moneys in the LOC Interest Account, the LOC Bond Sinking Account and the LOC Redemption Account shall be held in uninvested cash. The Bond Trustee, when authorized by the Corporation, may trade with itself in the purchase and sale of securities for such investment; provided, however, that in no case shall investments be otherwise than in accordance with the investment limitations contained in the Bond Indenture. The Corporation shall be responsible for all Written Requests complying with the requirements of the Tax Certificate. The Bond Trustee shall not be liable or responsible for any loss resulting from any such investments. The foregoing

notwithstanding, moneys held by the Bond Trustee resulting from a payment on the Bond Insurance Policy shall be held uninvested unless otherwise directed in writing by the Bond Insurer. Any purchase or sale of securities may be accomplished through the Bond Trustee's bond department.

All income in excess of the requirements of the Funds specified in the provisions of the Bond Indenture summarized in the first paragraph of this caption derived from the investment of moneys on deposit in any such funds shall be deposited in the following funds, in the order listed:

(i) The Debt Service Reserve Fund to the extent necessary to maintain the Debt Service Reserve Fund Requirement;

(ii) The Bond Sinking Fund and the Interest Fund (in that order), to the extent, with respect to the Bond Sinking Fund, of the amount required to be deposited in the Bond Sinking Fund to make the next required principal payment on the Bonds if such payment is scheduled to occur within 13 months of such transfer and to the extent, with respect to the Interest Fund, of the amounts which the Bond Trustee estimates based on the then current interest rates will be required to be deposited in the Interest Fund necessary to make any interest payments on the Bonds occurring within 13 months of such transfer; and

(iii) The balance, if any, in the Redemption Fund.

The Authority (and the Corporation by its execution of the Loan Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority and the Corporation the right to receive brokerage confirmations of security transactions as they occur, the Authority and the Corporation specifically waives receipt of such confirmations to the extent permitted by law. The Bond Trustee will furnish the Authority and the Corporation periodic cash transaction statements which include detail for all investment transactions made by the Bond Trustee hereunder.

Arbitrage

The Authority covenants and agrees in the Bond Indenture that it will not take any action or fail to take any action with respect to the investment of the proceeds of any Bonds issued under the Bond Indenture or with respect to the payments derived under the Loan Agreement or any other moneys regardless of source or where held which may, notwithstanding compliance with the other provisions of the Bond Indenture, the Loan Agreement and the Tax Certificate, result in constituting any Bonds "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code. The Authority further covenants and agrees that it will comply with and take all actions required by the Tax Certificate.

Letter of Credit; Substitute Letter of Credit

Pursuant to the Loan Agreement, the Corporation covenants and agrees that at all times while any Bonds are outstanding which bear interest at the Daily Rate or Weekly Rate, the Corporation will maintain a Liquidity Facility or a Letter of Credit in full force and effect with respect to all such Bonds in an amount not less than the Required Stated Amount for such Bonds. In addition, pursuant to the Loan Agreement, the Corporation covenants and agrees that at all times while any Bonds are outstanding which bear interest at the Daily Rate or Weekly Rate, if the rating of the Liquidity Facility Provider or the Letter of Credit Issuer, as the case may be, is lowered by either Moody's or S&P below "P-1" or "A-1," respectively, then the Corporation, unless otherwise consented to in writing by the Bond Insurer, shall use its best efforts to obtain a Substitute Liquidity Facility or a substitute Letter of Credit within 90 days of receipt of notice of the downgrade of the rating of the Liquidity Facility Provider or the Letter of Credit Issuer, as the case may be.

The amount available under the Liquidity Facility or the Letter of Credit may be reduced if the Corporation has deposited a Substitute Liquidity Facility or a Substitute Letter of Credit, as the case may be, with the Bond Trustee in accordance with the terms of this caption or the requirements set forth in the Bond Indenture are satisfied, but only upon the receipt by the Bond Trustee of (i) a Written Request of the Corporation requesting that the Bond Trustee direct or send appropriate notice to the Liquidity Facility Provider or the Letter of Credit Issuer, as the case

may be, requesting or directing that such amount be reduced and specifying the amount that shall thereafter be available under the Liquidity Facility or the Letter of Credit, and (ii) the written consent of the Authority and the Bond Insurer to such reduction. Neither the Authority, the Bond Trustee nor the Tender Agent shall consent to a reduction in the Liquidity Facility or the Letter of Credit, as the case may be, to an amount less than the Required Stated Amount for the Bonds benefiting from the Liquidity Facility or the Letter of Credit. Notwithstanding the foregoing, immediately after payment in full has been made on any Bond, either at Maturity, by Sinking Fund Installment, optional redemption or upon provision for payment as provided in the Bond Indenture, the Bond Trustee shall direct or send appropriate notice to the Liquidity Facility Provider or the Letter of Credit Issuer, as the case may be, requesting or directing that the amount available under the Liquidity Facility or the Letter of Credit be reduced by an amount equal to such principal so paid plus the amount of interest provided for under the Liquidity Facility or the Letter of Credit on such principal amount. No direction or consent of the Authority, the Corporation or the Bond Insurer shall be required for the Bond Trustee to take the action required by the preceding sentence.

While Bonds are bearing interest at a Daily Rate or Weekly Rate, a Substitute Liquidity Facility may become effective on any Business Day, which shall be a Substitute Liquidity Facility Date or a Substitute Letter of Credit Date. The Corporation shall cause a draft of any Substitute Liquidity Facility or Substitute Letter of Credit, as the case may be, in substantially final form and a commitment letter with respect thereto, together with written evidence from each Rating Agency rating the Bonds prior to the Substitute Liquidity Facility Date or the Substitute Letter of Credit Date of the rating on the Bonds after the Substitute Liquidity Facility Date or the Substitute Letter of Credit Date, to be delivered to the Bond Trustee, the Authority and the Bond Insurer, not less than 15 days prior to the proposed Substitute Liquidity Facility Date or the Substitute Letter of Credit Date. On each Substitute Liquidity Facility Date or Substitute Letter of Credit Date, as the case may be, the Authority, the Bond Insurer, the Bond Trustee, the Corporation and the Bond Trustee's Agent shall also receive (i) an opinion of counsel for the Substitute Liquidity Facility Provider or Substitute Letter of Credit Issuer, as the case may be, regarding the enforceability of the Substitute Liquidity Facility or Substitute Letter of Credit in substantially the form delivered to the Bond Trustee upon execution and delivery of the Liquidity Facility or the Letter of Credit then in effect, (ii) an Opinion of Bond Counsel to the effect that the substitution of the Liquidity Facility or the Letter of Credit, as the case may be, then in effect will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes, and (iii) the written consent of the Bond Insurer to the Substitute Liquidity Facility or the Substitute Letter of Credit, which consent may not be unreasonably withheld.

On any Substitute Liquidity Facility Date on which a Substitute Liquidity Facility becomes effective in accordance with the provisions of this caption, the Bond Trustee shall take such action as is required under the Liquidity Facility Agreement to cause the cancellation of the Liquidity Facility then in effect provided that all draws made thereunder have been honored. On any Substitute Letter of Credit Date on which a Substitute Letter of Credit becomes effective in accordance with the provisions of this caption, the Bond Trustee shall take such action as is required under the Letter of Credit Agreement to cause the cancellation of the Letter of Credit then in effect provided that all draws made thereunder have been honored.

On each Substitute Liquidity Facility Date or Substitute Letter of Credit Date, the Bonds shall be subject to mandatory purchase pursuant to the Bond Indenture; if any draw on a Liquidity Facility is necessary on the Substitute Liquidity Facility Date, the Bond Trustee shall draw on the prior Liquidity Facility; if any draw on the Letter of Credit is necessary, the Bond Trustee shall draw on the prior Letter of Credit; any Liquidity Facility Bonds held under the Prior Liquidity Facility shall be purchased by the new Liquidity Facility Provider at a price of par plus accrued interest; any Bank Bonds held under the prior Letter of Credit Agreement shall be purchased by the new Letter of Credit Issuer at a price of par plus accrued interest; and any and all amounts owing by the Corporation under the prior Liquidity Facility or the prior Letter of Credit shall be paid in full.

Immediate Notice shall be given by the Bond Trustee to the Liquidity Facility Provider, the Letter of Credit Issuer, the Corporation, the Authority, the Bond Insurer and each Rating Agency then maintaining a rating on the Bonds if no satisfactory Substitute Liquidity Facility or Substitute Letter of Credit shall be furnished to the Bond Trustee in accordance with this caption on or prior to the Expiration Date of the then current Liquidity Facility or the then current Letter of Credit.

On the second Business Day preceding the Expiration Date, the Bonds shall be subject to mandatory purchase pursuant to the Bond Indenture.

Draws on Letter of Credit. During such time as a Letter of Credit is in effect, the Bond Trustee shall draw upon the Letter of Credit in accordance with its terms in an amount which will be sufficient to pay, on any date on which due, principal of, premium, if any, and interest on the Bonds which are Eligible Bonds bearing interest at a Daily Rate or Weekly Rate, whether upon redemption, at Maturity, upon acceleration or otherwise. In no event shall the Bond Trustee draw upon the Letter of Credit to make any payment of the Bonds which are not Eligible Bonds.

The Bond Trustee shall also draw moneys under the Letter of Credit in accordance with its terms and in accordance with the Bond Indenture hereof to the extent necessary to pay to the Bondholders the Purchase Price of tendered bonds. Immediately following each drawing under the Letter of Credit (other than one to pay principal or interest on the Bonds on an Interest Payment Date), and not as a condition to such drawing, the Bond Trustee shall use its best efforts to give telephonic notice to the Corporation that such a drawing under the Letter of Credit was made. The Bond Trustee and the Tender Agent shall use their best efforts to return any moneys drawn under the Letter of Credit to the Letter of Credit Issuer as soon as reasonably practicable on or after the applicable purchase date to the extent such moneys exceed the amount necessary to pay the purchase price of Tendered Bonds.

Surrender of Letter of Credit. If at any time there shall have been delivered to the Bond Trustee, in substitution for the Letter of Credit then in effect, a Substitute Letter of Credit, then the Bond Trustee shall accept such Substitute Letter of Credit and shall surrender the Letter of Credit then in effect to the Letter of Credit Issuer which issued the Letter of Credit in accordance with its terms for cancellation as soon as all draws on such Letter of Credit have been made and such Letter of Credit is no longer required to be available to be drawn upon hereunder. The Bond Trustee shall promptly surrender any Letter of Credit after it expires in accordance with its terms or upon compliance by the Corporation with the provisions of the Loan Agreement; provided that the Bond Trustee shall not surrender any Letter of Credit until all draws made thereunder have been honored. Upon the conversion of the Bonds to a mode other than the Daily or Weekly, the Bond Trustee is required to terminate the Letter of Credit and surrender the Letter of Credit to the Letter of Credit Issuer.

Transfer of Letter of Credit. The Bond Trustee shall not sell, assign or otherwise transfer the Letter of Credit (other than pursuant to this caption) except to a successor Bond Trustee hereunder and in accordance with the terms of the Letter of Credit.

Supplemental Bond Indentures

Subject to the limitation set forth in the Bond Indenture, the Authority and the Bond Trustee may, without the consent of, or notice to, any of the Bondholders, but with the consent of the Bond Insurer and the Letter of Credit Issuer, if any, enter into an indenture or indentures supplemental to the Bond Indenture, as shall not be inconsistent with the terms and provisions the Bond Indenture, for any one or more of the following purposes:

(a) to cure any ambiguity or formal defect or omission in the Bond Indenture;

(b) to grant to or confer upon the Bond Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders and the Bond Trustee, or either of them;

(c) to assign and pledge under the Bond Indenture additional revenues, properties or collateral or, with the consent of the Bond Insurer, to provide for the use of a Liquidity Facility including during any Mode with respect to which such a Facility is not required under the terms of the Bond Indenture;

(d) to evidence the appointment of a separate co-bond trustee or the succession of a new bond trustee under the Bond Indenture;

(e) to permit the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as then amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;

(f) to permit the issuance of coupon bonds under the Bond Indenture and to permit the exchange of Bonds from registered form to coupon form and vice versa;

(g) to provide for the refunding or advance refunding of any Bonds, including providing for the establishment and administration of an escrow fund and the taking of related action in connection therewith;

(h) to provide for the issuance of a series of Additional Bonds, including the Series 2008A Bonds;

(i) to permit continued compliance with the Tax Certificate; and

(j) with the written consent of the Bond Insurer and the Letter of Credit Issuer, to make any other change that, in the judgment of the Bond Trustee, does not materially adversely affect the rights of any Bondholders.

The Authority and the Bond Trustee may not enter into a bond indenture or indentures supplemental to the Bond Indenture pursuant to subparagraph (g) above unless they shall have received an Opinion of Bond Counsel to the effect that entry into such indenture and the issuance of coupon Bonds pursuant thereto is permitted under the Bond Indenture and will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes. The Bond Trustee may decline in its discretion to enter into an indenture supplemental to the Bond Indenture pursuant to the other subparagraphs of the Bond Indenture described above unless it receives such an Opinion of Bond Counsel.

If at any time the Authority or the Bond Trustee proposes to enter into an indenture supplemental to the Bond Indenture pursuant to this caption, the Bond Trustee shall cause notice of the proposed execution of such supplemental indenture to be given to the Bond Insurer, the Letter of Credit Issuer, the Liquidity Facility Provider and any Rating Agency then maintaining a rating on any of the Bonds in the manner provided in the Bond Indenture at least 10 days prior to the execution of such supplemental indenture, which notice shall include a copy of the proposed supplemental indenture.

In addition to supplemental indentures covered by the Bond Indenture and subject to the terms and provisions contained in this caption, and not otherwise, the holders of not less than a majority in aggregate principal amount of the Bonds which are outstanding under the Bond Indenture at the time of the execution of such indenture or supplemental indenture, in all cases with the written consent of the Bond Insurer, the Letter of Credit Issuer and the Liquidity Facility Provider, if any, shall have the right, from time to time, anything contained in the Bond Indenture to the contrary notwithstanding, to consent to and approve the execution by the Authority and the Bond Trustee of such other indenture or indentures supplemental hereto as shall be deemed necessary and desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture or in any supplemental indenture; provided, however, that, except as set forth in the next proviso, the Bond Insurer may consent to such amendment on behalf of the owners of the Bonds so long as the Bond Insurer has not lost any of its rights pursuant to the Bond Indenture; provided, however, that nothing contained in the Bond Indenture shall permit, or be construed as permitting, a supplemental indenture to effect: (a) an extension of the stated maturity or reduction in the principal amount of, or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the redemption of, any Bonds, without the consent of the holders of such Bonds, the Bond Insurer and the Letter of Credit Issuer; (b) a reduction in the amount or extension of the time of any payment required to be made to or from the Interest Fund or the Bond Sinking Fund; (c) the creation of any lien prior to or on a parity with the lien of the Bond Indenture on the property described in the granting clauses of the Bond Indenture or the deprivation of any Bondholder of the lien created by the Bond Indenture on such property, without the consent of the holders of all the Bonds at the time outstanding, the Bond Insurer and the Letter of Credit Issuer; (d) a reduction in the aforesaid aggregate principal amount of Bonds the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all the Bonds at the time outstanding which would be affected by the action to be taken; or (e) a modification of the rights, duties or immunities of the Bond Trustee, without the written consent of the Bond Trustee.

If at any time the Authority shall request the Bond Trustee to enter into any such supplemental indenture for any of the purposes of this caption, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed to the Bond Insurer, the Letter of Credit Issuer, the Liquidity Facility Provider and each holder of Bonds as shown on the registration books of the Bond Trustee. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal office of the Bond Trustee for inspection by all Bondholders. The Bond Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such supplemental indenture when consented to and approved as provided in this caption. If the holders of the requisite principal amount of Bonds which are outstanding under the Bond Indenture at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided in the Bond Indenture, no holder of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted by and provided in the Bond Indenture, the Bond Indenture shall be and be deemed to be modified and amended in accordance therewith.

If at any time the Authority or the Bond Trustee proposes to enter into an indenture supplemental to the Bond Indenture pursuant to this caption, the Bond Trustee shall cause notice of the proposed execution of such supplemental indenture to be given to the Bond Insurer, the Liquidity Facility Provider and any Rating Agency then maintaining a rating on any of the Bonds in the manner provided in the Bond Indenture at least 10 days prior to the execution of such supplemental indenture, which notice shall include a copy of the proposed supplemental indenture.

Anything in the Bond Indenture to the contrary notwithstanding, so long as the Corporation is not in default under a Loan Agreement, a supplemental indenture under the Bond Indenture shall not become effective unless and until the Corporation shall have consented in writing to the execution and delivery of such supplemental indenture. In this regard, the Bond Trustee shall cause notice of the proposed execution and delivery of any such supplemental indenture to which the Corporation has not already consented, together with a copy of the proposed supplemental indenture and a written consent form to be signed by the Corporation, to be mailed by first class mail to the Corporation at least 30 days prior to the proposed date of execution and delivery of any such supplemental indenture.

Defaults and Remedies

Events of Default. Each of the following events is an "event of default" under the Bond Indenture:

(a) payment of any installment of interest payable on any of the Bonds shall not be made when the same shall become due and payable (a payment made by the Bond Insurer pursuant to the Bond Insurance Policies shall not be considered payment for these purposes); or

(b) payment of the principal or the premium, if any, payable on any of the Bonds shall not be made when the same shall become due and payable, either at Maturity, by proceedings for redemption, upon acceleration, through failure to make any payment to any fund under the Bond Indenture or otherwise (a payment made by the Bond Insurer pursuant to the Bond Insurance Policies shall not be considered payment for these purposes); or

(c) the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Bond Indenture; or

(d) an order or decree shall be entered, appointing a receiver, receivers, custodian or custodians for any of the revenues of the Authority, or approving a petition filed against the Authority seeking reorganization of the Authority under the federal bankruptcy laws or other similar law or statute of the United States of America or any state thereof, and in the case of any such order or decree which was entered without the consent or acquiescence of the Authority, it shall not be vacated or discharged or stayed on appeal within 60 days after the entry thereof; or

(e) any proceeding shall be instituted, with the consent or acquiescence of the Authority, or any plan shall be entered into by the Authority, for the purpose of effecting a composition between the Authority and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from any part or all of the trust estate, including the revenues and other moneys derived by the Authority under the Loan Agreement; or

(f) the Authority (1) files a petition in bankruptcy or under Title 11 of the United States Code, as amended, (2) makes an assignment for the benefit of its creditors, (3) consents to the appointment of a receiver, custodian or trustee for itself or for the whole or any part of the trust estate, including the revenues and other moneys derived by the Authority under the Loan Agreement, or (4) is generally not paying its debts as such debts become due; or

(g) (1) the Authority is adjudged insolvent by a court of competent jurisdiction, (2) on a petition in bankruptcy filed against the Authority it is adjudged as bankrupt, or (3) an order, judgment or decree is entered by any court of competent jurisdiction appointing, without the consent of the Authority, a receiver, custodian or trustee of the Authority or of the whole or any part of its property and any of the aforesaid adjudications, orders, judgments or decrees shall not be vacated or set aside or stayed within 60 days from the date of entry thereof; or

(h) the Authority shall file a petition or answer seeking reorganization or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(i) under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property, and such custody or control shall not be terminated within 30 days from the date of assumption of such custody or control; or

(j) any event of default as defined in the Master Indenture shall occur as a result of which the Authority or the Bond Trustee is entitled to request that the Master Trustee declare the Bond Obligation to be immediately due and payable or such event of default shall be continuing from and after the date on which the Master Trustee is entitled under the Master Indenture to declare any Obligation immediately due and payable, or the Master Trustee shall declare any Obligation immediately due and payable; or

(k) the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Bond Indenture or any agreement supplemental hereto to be performed on the part of the Authority, and such default shall continue for the period of 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority, the Corporation, the Liquidity Facility Provider, the Letter of Credit Issuer and the Bond Insurer by the Bond Trustee; provided that the Bond Trustee may give such notice in its discretion and shall give such notice at the written request of the Bond Insurer, the Letter of Credit Issuer or the holders of not less than 10% in aggregate principal amount of the Bonds then outstanding under the Bond Indenture; provided further that if such default cannot with due diligence and dispatch be wholly cured within 30 days but can be wholly cured, and the prior written consent of the Bond Insurer has been given, the failure of the Authority to remedy such default within such 30-day period shall not constitute a default under the Bond Indenture if the Authority shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch and the same shall in all events be cured within 60 days after written notice thereof from the Bond Trustee to the Corporation, the Liquidity Facility Provider, the Letter of Credit Issuer and the Bond Insurer or such later date as shall be agreed to in writing by the Bond Insurer; or

(l) the Authority or the Corporation shall default in the performance of any covenant, condition, agreement or position of the Certificate as to Tax, Arbitrage and Other Matters signed by the Authority concurrently with the issuance of the Bonds, or the Corporation shall default in the performance of any covenant, condition, agreement or provision of the Tax Certificate, and such default shall continue for the period of 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the party in default and the Corporation by the other party; provided that if such default cannot with due diligence be wholly cured

within 30 days but can be wholly cured and the prior written consent of the Bond Insurer is given, the failure of the Authority or the Corporation to remedy such default within such 30 day period shall not constitute a default under the Bond Indenture if any of the foregoing shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch; or

(m) if a Letter of Credit is in effect and on deposit with the Bond Trustee, Available Moneys are not on deposit in the LOC Interest Account, LOC Principal Account or LOC Redemption Account thereof on any date on which interest or principal is payable on the Eligible Bonds in an amount sufficient to make all payments of principal and interest becoming due on the Eligible Bonds on such date; or

(n) for any period during which a Letter of Credit is in effect and on deposit with the Bond Trustee, failure to pay the Purchase Price with respect to any Bonds; or

(o) receipt of written notice by the Bond Trustee from the Letter of Credit Issuer of a default under the Letter of Credit Agreement and directing an acceleration of the Bonds, prior written consent of the Bond Insurer; or

(p) receipt of written notice by the Bond Trustee from the Letter of Credit Issuer that the Letter of Credit Issuer is not reinstating the Letter of Credit following a draw under the Letter of Credit to pay interest on the Bonds to the amount available thereunder immediately prior to such drawing less any reduction therein as the result of the payment of principal of the Bonds pursuant to Section 508(C) hereof and directing a acceleration of the Bonds, prior written consent of the Bond Insurer.

If on the date payment of principal of or interest on any Bonds is due, sufficient moneys are not available to make such payment, the Bond Trustee shall give telephonic notice, confirmed in writing, of such insufficiency to the Corporation.

The Bond Trustee shall give the Corporation Immediate Notice of any failure of the Corporation to pay any installment of principal, premium, if any, and interest required by the Loan Agreement when the same shall become due and payable, whether upon a scheduled Interest Payment Date, at Maturity, upon any date fixed for prepayment, by acceleration or otherwise.

Written notice of the occurrence of the foregoing events of default and the continuation of the same for the period, if any, specified in said paragraphs, shall be given by the Bond Trustee to the Bond Insurer and the Letter of Credit Issuer.

Upon the happening of any event of default specified in subparagraphs (c) through (m) above and the continuance of the same for the period, if any, specified in said subparagraphs, the Bond Trustee as the assignee of the Authority may, with the consent of the Bond Insurer, and shall upon the request of the Bond Insurer and the Letter of Credit Issuer, but without any action on the part of the Bondholders, and upon the happening of an event of default specified in subparagraphs (a), (b), (n), (o) or (p) above, with the written consent of the Bond Insurer and the Letter of Credit Issuer, and without any action on the part of the Bondholders, or upon the happening and continuance of any other event of default (other than those specified in subparagraphs (a), (b), (n), (o) or (p) above and the written request of the Bond Insurer and the Letter of Credit Issuer or the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding under the Bond Indenture (exclusive of Bonds then owned by the Authority or an affiliate thereof) with the written consent of the Bond Insurer and the Letter of Credit Issuer, unless the Letter of Credit Issuer has failed to pay a properly presented draw certificate which strictly confirms to the terms of the Letter of Credit, and (except as provided in the Bond Indenture) upon being indemnified to its satisfaction, the Bond Trustee as assignee of the Authority shall, by notice in writing delivered to the Authority, declare the entire principal amount of the Bonds then outstanding under the Bond Indenture and the interest accrued thereon, immediately due and payable, and the entire principal and interest shall thereupon become and be immediately due and payable, subject, however, to the provisions of the Bond Indenture with respect to waivers of events of default. The Bond Trustee shall give notice thereof by first class mail, postage prepaid, to all owners of outstanding Bonds, the Authority, the Corporation, Bond Insurer, the Letter of Credit Issuer and the Liquidity Facility Provider; provided, however, that the giving of such notice shall not be considered a precondition

to the Bond Trustee declaring the entire principal amount of the Bonds then outstanding and the interest thereon immediately due and payable.

The foregoing notwithstanding, so long as a Letter of Credit is in effect and on deposit with the Bond Trustee, the Bond Insurer may direct the Bond Trustee to declare the Bonds immediately due and payable only if the Bond Trustee demonstrates to the Bond Insurer and the Letter of Credit Issuer that funds are available to pay the principal of and interest on the Bonds, including without limitation Bank Bonds.

In the event the maturity of the Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the Authority), and the Bond Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer's obligations under the Bond Insurance Policies with respect to the Bonds shall be fully discharged.

Remedies; Rights of Bondholders

Upon the occurrence of any Event of Default under the Bond Indenture, the Bond Trustee may, with the written consent of the Bond Insurer and without any action on the part of the Bondholders, and shall, upon being indemnified to its satisfaction, at the direction of the Bond Insurer pursue any available remedy, including a suit at law or in equity to: (a) enforce the payment of the principal of, premium, if any, and interest on the Bonds outstanding under the Bond Indenture; (b) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the owners under, and require the Authority or the Corporation to carry out any agreements with or for the benefit of the owners of Bonds and to perform its or their duties under, the Act, the Loan Agreement and the Bond Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Loan Agreement or the Bond Indenture, as the case may be; (c) bring suit upon the Bonds; or (d) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the owners of Bonds.

If an Event of Default shall have occurred, and if the Bond Trustee shall have been requested to do so by the Bond Insurer or the owners of not less than 25% in aggregate principal amount of Bonds then outstanding with the written consent of the Bond Insurer and the Bond Trustee shall have been indemnified as provided in the Bond Indenture, the Bond Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this caption as the Bond Insurer shall direct or in the absence of such direction, as the Bond Trustee shall deem most expedient in the interests of the owners of Bonds; provided, however, that the Bond Trustee shall have the right to decline to comply with any such request or direction if the Bond Trustee shall be advised by counsel (who may be its own counsel) that the action so requested may not lawfully be taken or the Bond Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of Bonds not parties to such request.

Upon the occurrence of any event of default (other than described in subparagraphs (a), (b) or (n) above) which gives rise to an acceleration of the maturity of the Bonds, the Bond Trustee shall request payment under the Letter of Credit of an amount which is equal to the full amount of principal and accrued interest remaining unpaid on the Eligible Bonds. All proceeds of such a draw under the Letter of Credit shall be deposited in the LOC Principal Account of the Bond Sinking Fund and the LOC Interest Account of the Interest Fund, as the case may be, and the related subaccount with respect to each subseries of Bonds. The Bond Trustee shall immediately pay the proceeds of such draw to the Holders of the Bonds.

No remedy by the terms of the Bond Indenture conferred upon or reserved to the Bond Trustee (or to the holders of Bonds or the Bond Insurer) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Bond Trustee, the holders of Bonds or the Bond Insurer under the Bond Indenture now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the Bond Indenture, whether by the Bond Trustee, by the holders of Bonds, or the Bond Insurer, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

When the Bond Trustee incurs expenses or renders services after the occurrence of an act of bankruptcy with respect to the Authority or the Corporation, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

Direction of Proceedings by Bondholders

The Bond Insurer or the owners of not less than a majority in aggregate principal amount of Outstanding Bonds with the written consent of the Bond Insurer shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Bond Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Bond Indenture, including the enforcement of the rights of the Authority under the Loan Agreement or the appointment of a receiver or any other proceedings under the Bond Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Bond Indenture.

Waiver of Events of Default

The Bond Trustee may, with the written consent of the Bond Insurer and the Letter of Credit Issuer, in their discretion without any action on the part of the Bondholders, and shall, upon the direction of the Bond Insurer, waive any Event of Default under the Bond Indenture and its consequences and rescind any declaration of maturity of principal, and shall do so upon being indemnified to its satisfaction and receipt of the written request of the holders, with the written consent of the Bond Insurer and the Letter of Credit Issuer, of (1) at least a majority in aggregate principal amount of all the Bonds outstanding in respect of which default in the payment of principal and/or interest exists, or (2) at least a majority in aggregate principal amount of all the Bonds outstanding in the case of any other event of default; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal of any outstanding Bonds when due whether by mandatory redemption through the Bond Sinking Fund, at the dates of Maturity specified therein or otherwise other than principal due upon an acceleration of the Bonds, (b) any default in the payment when due of the interest on any such Bonds, other than accrued interest due solely as a result of an acceleration of the Bonds, unless prior to such waiver or rescission all arrears of interest, with interest thereon (to the extent permitted by law) at the rate borne by the Bonds in respect of which such default shall have occurred on overdue installments of interest or all arrears of payments of principal when due, as the case may be, and all fees and expenses of the Bond Trustee, the Authority and any Paying Agent in connection with such default shall have been paid or provided for, including, but not limited to, the reasonable fees of their counsel, or (c) if a Letter of Credit is in effect and on deposit with the Bond Trustee, any failure to have Eligible Moneys on deposit in the LOC Interest Account, the LOC Bond Sinking Fund or the LOC Redemption Account on any date on which interest or principal is payable on the Eligible Bonds in an amount sufficient to make all payments of principal and interest becoming due on such date on the Eligible Bonds, unless prior to such waiver or rescission the Letter of Credit shall be reinstated in an amount equal to aggregate principal amount of the Outstanding Bonds plus 52 days of interest thereon at the Maximum Rate and, in the case of an event of default described in the Bond Indenture, the Letter of Credit Issuer has rescinded the notice described in the respective subsection.

In case of any such waiver or rescission or in case any proceeding taken by the Bond Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Authority, the Bond Trustee, the Bond Insurer and the Bondholders shall, subject to any determination in such proceeding, be restored to their former positions and rights under the Bond Indenture respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

Application of Moneys

All moneys received by the Bond Trustee or by any receiver pursuant to any right given or action taken under the provisions of the Bond Indenture (other than remarketing proceeds, draws under the Liquidity Facility and payments made by the Bond Insurer to pay principal and/or interest on the Bonds which shall be applied in

accordance with the Bond Indenture) and any other funds then held shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees of, and the expenses, liabilities and advances incurred or made by the Bond Trustee at the request or with the concurrence of the Bond Trustee, be deposited in the Revenue Fund and all moneys (other than moneys for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default or for the payment of interest which became due prior to such Event of Default) in the Funds maintained by the Bond Trustee under the Bond Indenture shall be applied as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST: Pro rata, to the payment to the Persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto without any discrimination or privilege;

SECOND: To the payment to the Persons entitled thereto of the unpaid principal (including unpaid premium, if any) of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege;

THIRD: To the payment to the Liquidity Facility Provider or the Letter of Credit Issuer of any amounts due under the Liquidity Facility or the Letters of Credit or Letter of Credit Agreement, as applicable;

FOURTH: To the payment of amounts, if any, payable pursuant to the terms of the Bond Indenture;

FIFTH: To the payment to the Bond Insurer of any amounts due;

SIXTH: To the payment to the Persons entitled thereto of unpaid principal and interest due and owing on any Bonds, the payment of principal and interest of which has been extended in the manner described in the Bond Indenture, including the Bond Insurer; and

SEVENTH: To the payment of Swap Termination Payment Obligations.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied:

FIRST: Pro rata, to the payment (i) of the principal (including unpaid premium, if any) and interest then due and unpaid upon the Bonds, or any amounts due under the Liquidity Facility, without preference or priority of principal or interest over the other, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege; and (ii) of Obligations that constitutes the Corporation's obligations to make regularly scheduled payments under the Pre-Issuance Rate Agreements; and

SECOND: To the payment of the principal (including unpaid premium, if any) and interest when due and unpaid upon Bonds with respect to which the payment of principal and interest has been extended as described in the Bond Indenture;

THIRD: To the payment to the Liquidity Facility Provider or the Letter of Credit Issuer of any amounts due under the Liquidity Facility or the Letters of Credit or Letter of Credit Agreement, as applicable;

FOURTH: To the payment of amounts, if any, payable pursuant to the terms of the Bond Indenture, including amounts payable to the Bond Insurer; and

FIFTH: To the payment of Swap Termination Payment Obligations.

(c) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Bond Indenture, then, subject to the provisions of subparagraph (b) above in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of subparagraph (a) above.

Whenever moneys are to be applied by the Bond Trustee pursuant to the provisions of Bond Indenture summarized under this caption, such moneys shall be applied by it at such times, and from time to time, as the Bond Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bond Trustee shall apply such moneys which shall not include the application of moneys upon the occurrence of an acceleration pursuant to the Bond Indenture, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable, or, with respect to payments of Defaulted Interest, shall be such date as is required by the Bond Indenture) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Bond Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date and of the Special Record Date by mailing a copy of such notice by first class mail to the registered owners of the Bonds, at least 10 days prior to the Special Record Date. The Bond Trustee shall not be required to make payment to the holder of any Bond until such Bond shall be presented to the Bond Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all Bonds and interest thereon have been paid under the provisions of this caption, all expenses and charges of the Bond Trustee have been paid and all amounts due and owing to the Bond Insurer and the Liquidity Facility Provider and the Letter of Credit Issuer, if any, have been paid, any balance remaining shall be paid to the Persons entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Corporation.

Removal of the Bond Trustee

Subject to the Bond Indenture, the Bond Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Bond Trustee, the Corporation, the Bond Insurer, the Letter of Credit Issuer, the Liquidity Facility Provider and the Authority, and signed by the owners of a majority in aggregate principal amount of Bonds then outstanding and consented to in writing by the Bond Insurer and the Letter of Credit Issuer. So long as no Event of Default has occurred and is continuing under the Bond Indenture or the Loan Agreement, the Bond Trustee may be removed for cause (including but not limited to maintaining non-competitive fees) at any time by an instrument or concurrent instruments in writing signed by the Corporation consented to in writing by the Authority and the Bond Insurer and delivered to the Bond Trustee. The foregoing notwithstanding, the Bond Trustee may not be removed by the Corporation unless written notice of the delivery of such instrument or instruments signed by the Authority is mailed to the owners of all Bonds outstanding under the Bond Indenture, which notice indicates the Bond Trustee will be removed and replaced by the successor trustee named in such notice, such removal and replacement to become effective on the 90th day next succeeding the date of such notice, unless the owners of not less than ten percent (10%) in aggregate principal amount of such Bonds then outstanding under the Bond Indenture or the Liquidity Facility Provider shall object in writing to such removal and replacement. Such notice shall be mailed by first class mail postage prepaid to the owners of all such Bonds then outstanding at the address of such owners then shown on the Bond Register. Prior to an Event of Default the Bond Insurer or the Letter of Credit Issuer has the right to remove the Bond Trustee for cause, and after an Event of Default, the Bond Insurer has the right to remove the Bond Trustee for any reason. Notwithstanding the foregoing, such removal shall not become effective until the appointment of a successor Bond Trustee pursuant to the Bond Indenture.

Defeasance

If the Authority shall pay or provide for the payment of the entire indebtedness on all Bonds (including for the purposes of the provisions of the Bond Indenture summarized under this caption, Bonds held by the Corporation) in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Bonds outstanding, as and when the same become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys (which shall be Eligible Moneys (other than moneys described in subparagraphs (b) and (c) of the definition of Eligible Moneys) for payment of Bonds bearing interest at the Daily Rate of the Weekly Rate, or for Liquidity Facility Bonds), in an amount sufficient to pay or redeem (when redeemable) all Bonds outstanding (including the payment of premium, if any, and interest payable on such Bonds to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in United States Government Obligations which are not prepayable or callable prior to, but mature on a date on or prior to the date the moneys therefrom are anticipated to be required in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Bonds outstanding at or before their respective maturity dates; it being understood that the investment income on such United States Government Obligations may be used for any other purpose under the Act;

(c) by delivering to the Bond Trustee, for cancellation by it, all Bonds outstanding; or

(d) by depositing with the Bond Trustee, in trust, United States Government Obligations which are not prepayable or callable prior to, but mature on a date on or prior to the date the moneys therefrom are anticipated to be required (purchased with Eligible Moneys (other than moneys described in subparagraphs (b) and (c) of the definition of Eligible Moneys) for payment of Bonds bearing interest at the Daily Rate or the Weekly Rate, or for Liquidity Facility Bonds or any Bank Bonds) in such amount as the Bond Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, and any uninvested cash, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Bonds outstanding at or before their respective maturity dates; provided that the Bond Trustee shall be permitted to rely upon an accountant's verification report as conclusive evidence of the sufficiency of the amount of such deposit;

and if the Authority and the Corporation shall pay or cause to be paid all other sums payable under the Bond Indenture by the Authority, and all other sums payable by the Corporation to the Liquidity Facility Provider under the Liquidity Facility and to the Letter of Credit Issuer under the Letter of Credit Agreement, including any amounts due to or to become due to the Bond Insurer, the Letter of Credit Issuer and the Liquidity Facility Provider, the Bond Indenture and the estate and rights granted under the Bond Indenture shall cease, determine, and become null and void, and thereupon the Bond Trustee shall, upon Written Request of the Authority, and upon receipt by the Bond Trustee of an Officer's Certificate of the Corporation and an opinion of Independent Counsel, each addressed to the Authority, the Bond Trustee, the Letter of Credit Issuer, and the Bond Insurer, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Bond Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Bond Indenture, the Loan Agreement and all financing statements filed in connection therewith, other than the liens on and financing statements filed in connection with such liens on the United States Government Obligations deposited. The provisions of subparagraphs (b) and (d) above shall only apply if (x) (A) such Bond matures or is called for redemption prior to the next date upon which such Bond is subject to purchase pursuant to the Bond Indenture or (B) if such Bond bears interest at a Daily Rate or Weekly Rate, the Bond Trustee, the Bond Insurer and the Authority receive evidence satisfactory to them that the moneys on deposit in the escrow established to advance refund such Bonds are in an amount sufficient to pay the principal of and interest on such Bonds at the Maximum Interest Rate, on any date such Bonds may be tendered during the period prior to payment in full of principal, premium, if any, and interest payable on such Bonds, in which case the tendered Bonds shall be purchased with moneys on deposit in the escrow and shall be canceled, which evidence shall be accompanied by a written notice from each Rating Agency then maintaining a rating on the Bonds to be refunded that the rating on such Bonds will not be withdrawn, suspended or reduced from the rating borne by such Bonds immediately prior to such refunding, and (y) the Corporation waives, to the satisfaction of the Bond Trustee, its right to convert the method for determining the interest rate borne by such Bond pursuant to the Bond Indenture.

The satisfaction and discharge of the Bond Indenture shall be without prejudice to the rights of the Bond Trustee and the Bond Insurer to charge and be reimbursed by the Authority and the Corporation for any expenditures which it may thereafter incur in connection herewith.

Any moneys, funds, securities, or other property remaining on deposit in the Revenue Fund, Interest Fund, Bond Sinking Fund, Debt Service Reserve Fund, Redemption Fund, Expense Fund or in any other fund or investment under the Bond Indenture (other than said United States Government Obligations or other moneys deposited in trust as above provided and other than amounts on deposit in the Rebate Fund) shall, upon the full satisfaction of the Bond Indenture, forthwith be transferred, paid over and distributed to the Corporation immediately preceding such satisfaction, as their respective interests may appear.

Upon compliance with the Bond Indenture, the Authority, the Corporation may at any time surrender to the Bond Trustee for cancellation by it any Bonds previously authenticated and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

If the Authority shall pay or provide for the payment of the Bonds as described above, the Bond Trustee shall give written notice of such payment or provision for payment to the Bond Insurer and the Liquidity Facility Provider. In addition, prior to any provision for payment of any portion of the Bonds pursuant to the Bond Indenture, the Bond Insurer and the Letter of Credit Issuer shall have consented to any investment agreements, hedge agreement, purchase and resale agreement or agreements providing for the forward purchase of Government Obligations which will be deposited with the Bond Trustee.

In addition, if any Bonds are defeased pursuant to subparagraph (b) or (d) above, the Corporation shall also deliver or cause to be delivered the following to the Bond Trustee, the Letter of Credit Issuer and the Bond Insurer:

(i) report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Bond Insurer verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date (a "Verification");

(ii) an escrow deposit agreement (which shall be acceptable in form and substance to the Bond Insurer and the Letter of Credit Issuer);

(iii) an opinion of Bond Counsel to the effect that the Bonds are no longer "Outstanding" under the Bond Indenture; and

(iv) a certificate of discharge of the Bond Trustee with respect to the Bonds.

Each Verification and opinion of Bond Counsel shall be acceptable in form and substance, and addressed, to the Authority, the Bond Trustee, the Letter of Credit and the Bond Insurer.

Drafts of the documents referred to in (i), (ii), (iii) and (iv) above shall be delivered to the Bond Insurer and the Letter of Credit Issuer for their approval not less than five Business Days prior to the date of the establishment of such escrow.

Bond Insurance

Consent of the Bond Insurer; Insurer's Rights

The Bond Insurer shall have the right to consent to amendments to the Bond Indenture and the Loan Agreement without the consent of the owners of the Bonds. Any action requiring consent of the Bondholders shall be deemed to also require the prior written consent of the Bond Insurer. Any and all notices required to be delivered to the Bondholders shall be delivered to the Bond Insurer.

Payment under the Bond Insurance Policy

As long as the Bond Insurance Policies shall be in full force and effect, the Bond Trustee agrees to comply with the following provisions:

(a) At least three (3) days prior to each Interest Payment Date, the Bond Trustee will determine whether there will be sufficient funds to pay the principal of or interest on the Bonds on such Interest Payment Dates (without regard to the existence of the Letter of Credit). If the Bond Trustee determines that there will be insufficient funds, the Bond 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 Bond 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 Bond Trustee.

(b) The Bond Trustee shall, after giving notice to the Insurance Trustee as provided in (a) above, make available to the Bond Insurer and the Insurance Trustee, the Bond Register, and all records relating to the funds maintained under this Bond Indenture and the Trustee shall make sure that such registration books and records reflect the designation of the Letter of Credit Issuer as subrogee, assignee and/or registered owner with respect to Bonds, as applicable.

(c) The Bond Trustee shall provide the Bond Insurer and the Insurance Trustee with a list of Holders of Bonds entitled to receive principal or interest payments from the Insurer under the terms of the Bond Insurance Policies (or so designating the Letter of Credit Issuer, to the extent that it will be deemed either an assignee or a subrogee under the Bond Indenture, of the rights of the Bondholders to receive payments under the Bond Indenture), and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Bonds entitled to receive full or partial interest payments from the Bond Insurer (or the Letter of Credit Issuer, as assignee or subrogee pursuant to the terms Bond Indenture, of the rights of the Bondholders to receive payments under the Bond Indenture) and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the Holders of Bonds entitled to receive full or partial principal payments from the Bond Insurer.

(d) The Bond Trustee shall at the time it provides notice to the Insurance Trustee pursuant to (a) above, notify Holders of Bonds entitled to receive the payment of principal or interest thereon from the Bond Insurer (or the Letter of Credit Issuer, as assignee or subrogee pursuant to the terms of the Bond Indenture, of the rights of the Bondholders to receive payments under the Bond Indenture) (i) as to the fact of such entitlement, (ii) that the Bond Insurer will remit to them all or part of the interest payments next coming due upon proof of the Holder's entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee as determined by the Bond Insurer, of an appropriate assignment of the Holder's right to payment, (iii) that should they be entitled to receive full payment of principal from the Bond Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Bond Insurer to permit ownership of such Bonds to be registered in the name of the Bond Insurer) for payment to the Insurance Trustee, and not the Bond Trustee and (iv) that should they be entitled to receive partial payment of principal from the Bond Insurer, they must surrender their Bonds for payment thereon first to the Bond Trustee, who shall note on such Bonds the portion of the principal paid by the Bond Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Bond Insurer, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Bond 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 a Holder or the Letter of Credit Issuer, as assignee or subrogee thereof, by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its Holder or the Letter of Credit Issuer, as assignee or subrogee thereof, 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 Bond Trustee shall, at the time the Insurance Trustee is notified pursuant to (a) above, notify all Holders or the Letter of Credit Issuer, as assignee or subrogee thereof, that in the event that any payment to the Holder or the Letter of Credit issuer, as assignee or subrogee thereof, is so recovered, such Holder or the Bank, as assignee or subrogee thereof, will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Bond Trustee shall furnish to the Insurance Trustee and the Bond Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Bond Trustee and subsequently recovered from Holders or the Bank, as assignee or subrogee thereof, and the dates on which such payments are made.

Rights of the Bond Insurer

Anything contained in the Bond Indenture or in the Bonds to the contrary notwithstanding, the existence of all rights given to the Bond Insurer under the Bond Indenture with respect to the giving of consents, approvals, notices or the direction of proceedings are expressly conditioned upon its timely and full performance of the Bond Insurance Policies. Any such rights shall not apply if at any time (a) there are no Bonds outstanding or payable, or amounts owed to the Bond Insurer, (b) the Bond Insurer is in payment default under any of the Bond Insurance Policies, (c) the Bond Insurer has been declared insolvent or bankrupt by a court of competent jurisdiction, an order or decree shall have been entered appointing a receiver, receivers, custodian or custodians for any of its assets or revenues, or any proceeding shall be instituted with the consent or acquiescence of the Bond Insurer or any plan shall be entered into by the Bond Insurer for the purpose of effecting a composition between the Bond Insurer and its creditors or for the purpose of adjusting the claims of such creditors, (d) the Bond Insurer makes any assignment for the benefit of its creditors, (e) the Bond Insurer is generally not paying its debts as such debts become due, (f) the Bond Insurer has filed a petition in bankruptcy or under Title 11 of the United States Code, as amended, (g) any of the Bond Insurance Policies has been determined to be void or unenforceable by final judgment of a court of competent jurisdiction, or (h) an action by the Bond Insurer causes an event of default under the Liquidity Facility which permits the Liquidity Facility Provider immediately to terminate the Liquidity Facility; provided that the terms of the Bond Indenture summarized under this caption shall not in any way limit or affect the rights of the Bond Insurer as a Bondholder, as subrogee of a Bondholder or as assignee of a Bondholder or to otherwise be reimbursed and indemnified for its costs and expenses and other payment on or in connection with the Bonds or the Bond Insurance Policies either by operation of law or at equity or by contract.

The rights granted to the Bond Insurer under the Bond Indenture and the Loan Agreement to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Bond Insurance Policies. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Bondholders nor does such action evidence any position of the Bond Insurer, positive or negative, as to whether Bondholder consent is required in addition to consent of the Bond Insurer.

In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Bond Indenture would adversely affect the security for the Bonds or the rights of the Bondholders, the Bond Trustee shall consider the effect of any such amendment, consent, action or inaction as if there were no Bond Insurance Policies.

THE AMENDED AND RESTATED LOAN AGREEMENT

Representations

The Corporation represents in the Amended and Restated Loan Agreement (the "Loan Agreement") that it is a nonprofit public benefit corporation duly incorporated under the laws of the State, is in good standing and is duly authorized to conduct its business in the State and the Corporation has full power under all applicable laws and its articles of incorporation and By-laws to create, issue, enter into, execute and deliver, as applicable, the Deed of Trust, the Official Statement, the Tax Certificate and the Loan Agreement. In addition, the Corporation represents in the Loan Agreement that it (i) is a Tax-Exempt Organization, (ii) has each received a letter from the Internal Revenue Service to the foregoing effect, which letter has not been modified, limited or revoked, (iii) is in compliance with all the terms, conditions and limitations (if any) contained in such letter, it being specifically represented by them that the facts and circumstances which form the basis of such letter continue to exit, (iv) is in compliance with all laws and regulations applicable to its status under the Code, and (v) is therefore exempt from federal income taxes under Section 501(a) of the Code.

Assignment of Rights under the Loan Agreement

The Corporation acknowledges and consents to the pledge and assignment of the Loan Agreement (excluding Unassigned Rights) and payments to be made under the Loan Agreement, and of the Authority's rights under the Loan Agreement (excluding Unassigned Rights) to the Bond Trustee pursuant to the Bond Indenture to secure payment of the Bonds and agrees that the Bond Trustee may, on behalf of the owners of the Bonds, enforce

the rights, remedies and privileges granted to the Authority under the Loan Agreement, other than the Unassigned Rights.

Loan of Bond Proceeds; Payments under the Loan Agreement

Under the terms of the Loan Agreement, the Authority loans the proceeds of the Bonds to the Corporation and the Corporation agrees that the proceeds of the Bonds being loaned to the Corporation shall be deposited with the Bond Trustee and applied for the benefit of the Corporation as provided in the Bond Indenture.

Under the terms of the Loan Agreement, the Corporation agrees that the principal of, premium, if any, and interest on the Bonds shall be made payable in accordance with the provisions of the Bond Indenture and the Loan Agreement. The Corporation further agrees that the Loan Agreement and payments to be made thereunder (excluding Unassigned Rights) and thereon shall be assigned and pledged to the Bond Trustee to secure the payment of the Bonds. The foregoing notwithstanding, the Corporation agrees that the moneys and securities, if any, on deposit in the Rebate Fund and the Purchase Fund are not part of the "trust estate" and are not available to make payments of principal, premium, if any, and interest on the Bonds.

Indemnification of the Authority and the Bond Trustee

The Corporation agrees to pay, and to protect, indemnify and save the Authority and its members, the Association of Bay Area Governments and its members, the Bond Trustee and each of their respective officers, governing members, directors, officials, employees, attorneys and agents harmless from and against, any and all liabilities, losses, damages, tax penalties, costs and expenses incurred by them, all as more fully described in the Loan Agreement.

Use of Property

The Corporation agrees to use its senior residential and care Facilities primarily as revenue producing facilities and for related activities and only in furtherance of its lawful corporate purposes. The Corporation further covenants and agrees to operate so as not to discriminate on a legally impermissible basis.

The Corporation further agrees that it will not use or permit to be used any of its Bond Financed Property (i) primarily for sectarian instruction or study or as a place of devotional activities or religious worship or as a facility used primarily in connection with any part of the program of a school or department of divinity for any religious denomination or the training of ministers, priests, nuns, rabbis or other similar persons in the field of religion, or (ii) in a manner which is prohibited by the establishment of religion clause of the First Amendment to the Constitution of the United States of America and the decisions of the United States Supreme Court interpreting the same or by any comparable provisions of the Constitution of the State and the decisions in the Supreme Court of the State interpreting the same.

The Corporation will permit the Authority, but the Authority shall not be obligated, to make inspections of any of its Property to determine compliance with the two preceding paragraphs. The provisions of this paragraph and the immediately preceding paragraph shall remain in full force and effect notwithstanding the payment of the Bonds and all amounts due and owing under the Loan Agreement and the termination of the Bond Indenture and the Loan Agreement.

The covenants and agreements contained summarized under this caption need not be observed or may be changed if the Bond Trustee and the Corporation receive an Opinion of Bond Counsel to the effect that such nonobservance or change will not adversely affect the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes or the validity of the Bonds.

Particular Covenants

Maintenance of Corporate Existence and Status. Unless the Corporation complies with the following provisions, the Corporation agrees that as long as any Bonds are Outstanding it will maintain its existence, will not

dissolve, liquidate or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it. Any dissolution, liquidation, disposition, consolidation or merger shall be subject to the following conditions:

1. the Corporation provides a certificate to the Bond Trustee, in form and substance satisfactory to such parties, to the effect that no event of default exists hereunder or under the Bond Indenture and that no event of default will be caused by the dissolution, liquidation, disposition, consolidation or merger;

2. the entity surviving the dissolution, liquidation, disposition, consolidation or merger assumes in writing and without condition or qualification the obligations of the Corporation under the Corporation Agreements;

3. the Corporation or the entity surviving the dissolution, liquidation, disposition, consolidation or merger, within ten days after execution thereof, furnishes to the Authority and the Bond Trustee a true and complete copy of the instrument of dissolution, liquidation, disposition, consolidation or merger;

4. neither the validity nor the enforceability of the Bonds, the Bond Indenture or any agreements to which the Corporation is a party is adversely affected by the dissolution, liquidation, disposition, consolidation or merger;

5. the dissolution, liquidation, disposition, consolidation or merger will not adversely affect any exemption from federal income taxation to which interest on the Tax-Exempt Bonds would otherwise be entitled;

6. evidence that no rating on the Bonds, if the Bonds are then rated, is reduced or withdrawn as a result of the dissolution, liquidation, disposition, consolidation or merger;

7. any successor to the Corporation shall be qualified to do business in the State and shall continue to be qualified to do business in the State throughout the term hereof;

8. (i) neither the validity or enforceability of the Corporation Agreements adversely affected by the dissolution, liquidation, disposition, consolidation or merger, and (ii) the provisions of the Act, the Bond Indenture and Corporation Agreements are complied with concerning the dissolution, liquidation, disposition, consolidation or merger;

9. the Corporation provides an Officer's Certificate to the Bond Trustee stating that the Corporation or successor, as applicable, immediately following the dissolution, liquidation, disposition, consolidation or merger, will be able to issue at least one dollar of additional Long-Term Indebtedness;

10. the Corporation provides an Officer's Certificate to the Bond Trustee stating that the Debt Service Coverage Ratio of the Corporation or successor, as applicable, after giving effect to the transaction, will not be les than 1.35 and 65% of what it was prior to the transaction, or alternatively, with the consent of the Bond Insurer, the Debt Service Coverage Ratio will be higher than it was prior to the transaction;

11. the Corporation provides an Officer's Certificate to the Bond Trustee stating that the Obligor or successor, as applicable, immediately following the dissolution, liquidation, disposition, consolidation or merger, will have not less than 150 Days Cash on Hand; and

12. the Authority has executed a certificate acknowledging receipt of all documents, information and materials required by the foregoing.

As of the effective date of the dissolution, liquidation, disposition, consolidation or merger, the Corporation (at its cost) shall furnish to the Authority and Bond Trustee (i) an opinion of Bond Counsel, in form and substance satisfactory to such parties, as to items (d) and (e) above, and (ii) an opinion of Independent Counsel, in form and substance satisfactory such parties, as to the legal, valid and binding nature of item (b) and (h) above.

The Corporation further covenants that none of its money, property or other assets will be distributed to any of its directors or officers or to any other private person or individual; provided, however, that the Corporation may pay compensation or provide payment in kind in a reasonable amount for services rendered, including for service as a director only, or otherwise distribute its money, property or other assets to its directors, officers or any other private person or individual if such distribution is permitted by the California Nonprofit Corporation Public Benefit Corporation Law, and is otherwise permitted under the terms hereof.

Maintenance and Repairs; Taxes; Utility and Other Charges. The Corporation agrees to maintain the Facilities (i) in as reasonably safe condition as its operations shall permit and (ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

Continuing Disclosure. The Corporation covenants and agrees to comply with the continuing disclosure requirements promulgated under Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, if and to the extent that such requirements are applicable to any of the Bonds. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the requirements of Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, shall not be considered a Loan Default Event; however, the Bond Trustee, at the written request of the Remarketing Agent, the Tender Agent or the Holders of at least 25% aggregate principal amount of Outstanding Bonds of any series, shall, but only to the extent indemnified to its satisfaction from and against any cost, liability or expense related thereto, including, without limitation, reasonable fees and expenses of its attorneys and advisors and additional fees and expenses of the Bond Trustee or any Holder or beneficial owner of the Bonds, 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.

Investment of Funds; Compliance with Tax Requirements

The Corporation covenants and agrees that moneys on deposit in any Fund under the Bond Indenture shall at all times be invested by the Bond Trustee in Qualified Investments and that the Corporation will take all actions necessary, including without limitation providing the Bond Trustee with, or causing the Bond Trustee to receive, all necessary directions in writing to assure that such moneys are continuously invested in accordance with the provisions of the Bond Indenture and the Tax Certificate. In the absence of any direction by the Corporation, moneys on deposit in any Fund under the Bond Indenture shall not be invested. The Bond Trustee is authorized to trade with itself in the purchase and sale of securities as provided in the Bond Indenture until otherwise directed by the Corporation in an Officer's Certificate.

Corporation's Obligations Unconditional

The Authority and the Corporation agree that the Corporation shall bear all risk of damage, destruction or loss of title in whole or in part to its Property, or any part thereof, including without limitation any loss, complete or partial, or interruption in the use, occupancy or operation of such Property, or any manner or thing which for any reason interferes with, prevents or renders burdensome, the use or occupancy of its Property or the compliance by the Corporation with any of the terms of the Loan Agreement. In furtherance of the foregoing, but without limiting any of the other provisions of the Loan Agreement, the Corporation agrees that its obligations to pay the principal, premium, if any, and interest owing under the Loan Agreement, to pay the other sums provided for in the Loan Agreement and to perform and observe its other agreements contained in the Loan Agreement shall be absolute and unconditional and that the Corporation shall not be entitled to any abatement or diminution thereof nor to any termination of the Loan Agreement for any reason whatsoever. Under no circumstances shall payments on the Bonds made pursuant to payments by the Bond Insurer under the Bond Insurance Policies diminish, abate or otherwise discharge the obligations of the Corporation under the Loan Agreement.

Exchange of Bonds

In the event the Act or the Authority created thereunder is determined to be unconstitutional under the laws of the State or under the laws of the United States of America, and as a result thereof, the Bonds issued by the Authority are declared to be invalid and unenforceable, then the Corporation agrees that it will issue its own bonds (the interest on which may not be exempt from federal income tax) in exchange for an amount of Bonds equal to the

then outstanding Bonds, principal amount for principal amount, having the same rates of interest, maturity, redemption provisions and prepayment provisions as are then applicable to the Bonds being exchanged. The bonds to be issued by the Corporation will be issued under an indenture having substantially the same terms and provisions as the Bond Indenture and the Loan Agreement and such bonds of the Corporation will be issued thereunder in exchange for an amount of Bonds equal to the Bonds surrendered by the registered owners thereof. Notice of any such exchange shall be given as provided for redemption of the Bonds under the Bond Indenture and the expenses of such exchange, including the printing of the bonds and other reasonable expenses in connection therewith, shall be borne by the Corporation.

Discharge of Orders

The Corporation covenants to cause any order, writ or warrant of attachment, garnishment, execution, replevin or similar process filed against any part of the funds or accounts held by the Bond Trustee under the Bond Indenture to be discharged, vacated, bonded or stayed within 90 days after such filing (which 90-day period shall be extended for so long as the Corporation is contesting such process in good faith), but, notwithstanding the foregoing, in any event not later than five days prior to any proposed execution or enforcement with respect to such filing or any transfer of moneys or investments pursuant to such filing.

Letter of Credit; Substitute Letter of Credit

While any Bonds bear interest at the Daily Rate, the Weekly Rate or the Unit Pricing Rate, the Corporation shall furnish and maintain a Letter of Credit or a Liquidity Facility (or, if a Letter of Credit or a Liquidity Facility is then in existence, a Substitute Letter of Credit or Substitute Liquidity Facility in substitution for the Letter of Credit or Liquidity Facility then in effect if permitted by the Letter of Credit or Liquidity Facility then in effect) to the Tender Agent to provide for the purchase of the Bonds bearing interest at the Daily Rate, the Weekly Rate or the Unit Pricing Rate upon their optional or mandatory tender in accordance with Sections 504, 505, 506 and 508 of the Bond Indenture. Any Letter of Credit or Liquidity Facility (or Substitute Letter of Credit or Substitute Liquidity Facility) shall be a facility provided by a Letter of Credit Issuer or a Liquidity Facility Provider in an amount equal to the Required Stated Amount for such Bonds with a term of at least 360 days from the effective date thereof, and such Letter of Credit Issuer or Liquidity Facility Provider and such Letter of Credit or Liquidity Facility (including, without limitation, any Letter of Credit or Liquidity Facility provided by the Corporation or any affiliate thereof) shall be subject to the approval of the Bond Insurer. Bonds bearing interest in the Auction Mode, the Term Rate Mode, the Indexed Mode and the Fixed Rate Mode shall not be required to have the benefit of a Letter of Credit or Liquidity Facility while in such Modes.

The Corporation shall give at least 90 days' written notice to the Bond Trustee, the Bond Insurer and the Tender Agent of (1) its intent to furnish a Letter of Credit or Substitute Letter of Credit to the Tender Agent, which notice shall specify the nature of such Letter of Credit, the identity of the Letter of Credit Issuer, the Bonds to have the benefit of the Letter of Credit, and the proposed effective date and scheduled termination date of the Letter of Credit and (2) its intent to terminate a Letter of Credit then in effect, which notice shall specify the proposed termination date for such Letter of Credit.

The Corporation covenants and agrees that at all times while any Bonds are outstanding which bear interest at the Daily Rate, Weekly Rate or Unit Pricing Rate, if the rating of the Letter of Credit Issuer is lowered by either Moody's, Fitch or S&P below "A-1" or "VMIG-1," respectively, then the Corporation shall, unless otherwise consented to in writing by the Bond Insurer, use its best efforts to obtain a Substitute Letter of Credit within 90 days of receipt of notice of the downgrade of the rating of the Letter of Credit Issuer.

Supplements and Amendments to the Loan Agreement

The Corporation, with the consent of the Authority, the Bond Insurer, the Liquidity Facility Provider, the Letter of Credit Issuer and the Bond Trustee may from time to time enter into such supplements and amendments to the Loan Agreement as to them may seem necessary or desirable to effectuate the purposes or intent of the Loan Agreement; provided, however, that no such amendment shall be effective if not adopted in accordance with the terms of the Bond Indenture. An executed copy of any of the foregoing amendments, changes or modification shall be filed with the Bond Trustee. The Bond Trustee, with the consent of the Bond Insurer or the Letter of Credit

Issuer, may grant such waivers of compliance by the Corporation with provisions of the Loan Agreement as to which the Bond Trustee may deem necessary or desirable to effectuate the purposes or intent of the Loan Agreement and which, in the opinion of the Bond Trustee, do not have a material adverse effect upon the interests of the Bondholders, provided that the Bond Trustee shall file with the Authority any and all such waivers granted by the Bond Trustee within three (3) business days thereof.

Defaults and Remedies

The occurrence and continuance of any of the following events shall constitute an "event of default" under the Loan Agreement:

(a) failure of the Corporation to pay any installment of interest, principal or premium under the Loan Agreement or any other payment required by the Loan Agreement when the same shall become due and payable, whether upon a scheduled Interest Payment Date, on a Maturity Date, upon any date fixed for prepayment, upon acceleration or otherwise; or

(b) failure of the Corporation to comply with or perform any of the covenants, conditions or provisions hereof, or failure of the Corporation to comply with or perform any of the covenants, conditions or provisions of the Tax Certificate and to remedy such default within 30 days after written notice thereof from the Authority, the Bond Insurer, the Letter of Credit Issuer or the Bond Trustee or the Letter of Credit Issuer to the Corporation, the Letter of Credit Issuer and the Bond Insurer; provided that, with the prior written consent of the Bond Insurer and the Letter of Credit Issuer, if such default cannot with due diligence and dispatch be wholly cured within 30 days but can be wholly cured, the failure of the Authority, the Corporation or the Bond Trustee to remedy such default within such 30 day period shall not constitute a default hereunder if any of the foregoing shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch, provided no such cure period shall continue beyond 60 days after such notice without the written consent of the Bond Insurer; or

(c) any representation or warranty made by the Corporation in the Loan Agreement or in any statement or certificate, furnished to the Authority or the Bond Trustee or the purchaser of any Bonds in connection with the sale of Bonds or furnished by the Corporation pursuant thereto proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 30 days after written notice thereof to the Corporation and the Bond Insurer by the Authority, the Bond Insurer or the Bond Trustee, provided no such cure period shall continue beyond 60 days after such notice without the written consent of the Bond Insurer; or

(d) the Corporation admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for the Corporation, or for the major part of its Property; or

(e) a trustee, custodian or receiver is appointed for the Corporation or for the major part of its Property and is not discharged within 60 days after such appointment; or

(f) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against the Corporation (other than bankruptcy proceedings instituted by the Corporation against third parties), and if instituted against the Corporation are allowed against the Corporation or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution; or

(g) payment of any installment of interest, principal or premium on any Bond shall not be made when the same shall become due and payable under the provisions of the Bond Indenture; or

(h) failure of the Corporation to comply with or perform its obligations pursuant to the Loan Agreement.

The Corporation will give Immediate Notice to the Authority, the Bond Insurer, the Letter of Credit Issuer and the Bond Trustee of any Event of Default described in (d) through (h).

Upon the occurrence and during the continuance of any event of default under the Loan Agreement and subject to compliance with the Loan Agreement, the Authority shall have the following rights and remedies, in addition to any other remedies in the Loan Agreement or by law provided:

(a) Upon the occurrence and continuance of an event of default under the Loan Agreement, the Bond Trustee, as assignee of the Authority, may, with the written consent of the Bond Insurer, and shall, at the written direction of the Bond Insurer, by written notice to the Corporation, declare all amounts payable pursuant to the Loan Agreement immediately due and payable.

(b) The Bond Trustee, as assignee of the Authority, may in its discretion, with the written consent of the Bond Insurer and the Letter of Credit Issuer, and shall, upon indemnification to its satisfaction and upon the written direction of the Bond Insurer, with or without entry, personally or by attorney, proceed to protect and enforce its rights by pursuing any available remedy including a suit or suits in equity or at law, whether for damages or for the specific performance of any obligation, covenant or agreement contained in the Loan Agreement, or in aid of the execution of any power granted in the Loan Agreement, or for the enforcement of any other appropriate legal or equitable remedy, as the Bond Trustee shall deem most effectual to collect the payments then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement, or to protect and enforce any of the Authority's rights or duties under the Loan Agreement.

THE DEED OF TRUST

The Obligations of the Corporation issued under the Master Indenture are secured by the lien of the Deed of Trust upon the Facilities (including certain real property owned by the Corporation together with all permanent improvements thereon and all fixtures and equipment now or hereafter installed or situated thereon until such time as such obligations are paid in full).

The Deed of Trust may be amended, changed, modified or terminated at any time, by the written consent of the Holders, the Bond Insurer and the Corporation.

Upon the failure of the Corporation to perform its obligations as required under the Deed of Trust, the Bond Trustee, as beneficiary under the Deed of Trust, may elect (subject to direction pursuant to the Bond Indenture) 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 Facilities.

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APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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Stephen L. Taber
415 743 6965
stephen.taber@hklaw.com

February 7, 2008

U.S. Bank, National Association
635 West Fifth Street, 24th Floor
Los Angeles, California 90071

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

Re: ***Amended and Restated Indenture and Amended and Restated Loan Agreement related to ABAG Finance Authority for Nonprofit Corporations $28,700,000 Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007A, and $16,945,000 Taxable Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007B.***

Ladies and Gentlemen:

We have heretofore acted as Bond Counsel in connection with the issuance and sale by the ABAG Finance Authority for Nonprofit Corporations (the "Issuer"), of its $28,700,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007A (the "Series 2007A Bonds") and $16,945,000 ABAG Finance Authority for Nonprofit Corporations Taxable Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007B (the "Series 2007B Bonds" and, together with the Series 2007A Bonds, the "Bonds"). The Bonds were issued pursuant to a Bond Indenture dated as of May 1, 2007 (the "Bond Indenture") among Casa de las Campanas, Inc., a nonprofit public benefit corporation duly organized and existing under the laws of the State of California (the "Corporation"), ABAG Finance Authority for Nonprofit Corporations (the "Authority") and U.S. Bank, National Association (the "Trustee"). In connection with the issuance of the Bonds, the Corporation and the Authority entered into a Loan Agreement dated as of May 1, 2007 (the "Loan Agreement"). Payment of principal and interest on the Bonds was insured by Radian Asset Assurance Inc. (the "Bond Insurer") and a liquidity facility to support the Bonds was provided by KBC Bank N.V., New York Branch (the "Liquidity Facility").

The Corporation desires on the date hereof (the "Conversion Date") to terminate the Liquidity Facility and to obtain additional credit enhancement for the Bonds in the form of an

irrevocable direct pay letter of credit (the "Letter of Credit") issued by JPMorgan Chase Bank, National Association (the "Bank"). In connection therewith, the Corporation, the Authority and the Trustee propose to amend and restate the Bond Indenture pursuant to an Amended and Restated Bond Indenture dated as of February 1, 2008 (the "Amended and Restated Bond Indenture") and to amend and restate the Loan Agreement pursuant to an Amended and Restated Loan Agreement dated as of February 1, 2008 (the "Amended and Restated Loan Agreement") in order to provide for the delivery of and draws on the Letter of Credit. Also on the Conversion Date, the Series 2007A Bonds will convert from a Weekly Mode to a Daily Mode. The various changes to the terms of Series 2007A Bonds as of the Conversion Date are collectively referred to herein as the "Modifications."

All capitalized terms used herein and not otherwise defined shall have the same meanings as ascribed to them under the Bond Indenture or the Amended and Restated Bond Indenture.

Section 901 of the Bond Indenture provides for amendment of the Bond Indenture and Section 10001 of the Bond Indenture and Section 10.1 of the Loan Agreement provides for amendment of the Loan Agreement. Section 1308 of the Indenture provides that the Bond Insurer may consent to amendments to the Bond Indenture and the Loan Agreement without the consent of the owners of the Bonds.

The Trustee has informed us that it has heretofore received the written consent of the Bond Insurer evidencing consent to the Amended and Restated Bond Indenture and the Amended and Restated Loan Agreement.

We have been advised and have assumed without independent investigation that (i) the Loan Agreement, the Bond Indenture and the Liquidity Facility remain in full force and effect on the date hereof, (ii) no default or event which, with the passage of time or the giving of notice, or both, could constitute a default, has occurred and is continuing under any such documents, (iii) there have been no changes or modifications to the Loan Agreement, the Liquidity Facility or the Bond Indenture, other than as expressly described above, and that there have been no changes or modifications in the interest rate Mode or other terms and provisions pertaining to the Bonds or the security therefor since the date of issuance of the Bonds, (iv) there will be no adjustment of the interest rate Mode for the Series 2007A Bonds in connection with, or contemporaneously with, the Modifications other than the conversion from a Weekly Mode to a Daily Mode on the Conversion Date, (v) there will be no other change to the terms of the Bonds as part of, in connection with, or contemporaneously with, the Modifications, and (vi) that the Letter of Credit, when issued, will be valid and enforceable in accordance with its terms.

This opinion is being rendered in connection with the Modifications. In rendering the opinions set forth below, we have examined and relied upon certified copies of the Bond Indenture, as amended and restated by the Amended and Restated Bond Indenture, and the Loan Agreement, as amended and restated by the Amended and Restated Loan Agreement, and are relying on the covenants and agreements of the Authority and the Corporation set forth therein. In addition to the foregoing, we have examined and relied upon such other agreements,

documents and opinions, including certificates and representations of public officials, officers and representatives of the Authority, the Corporation, and the Trustee and various other parties participating in this transaction, including opinions rendered by counsel to the Corporation and the Bank, as we have deemed relevant and necessary in connection with the opinions set forth below.

We have not undertaken an independent audit, examination, investigation or inspection of the matters described or contained in the agreements, documents, certificates, and representations related to the original issuance of the Bonds or in any of the other referenced agreements, certificates or other documents. In rendering the opinions set forth below, we have relied solely on the facts, estimates and circumstances described and set forth in the referenced documents or in the preceding paragraphs.

In our examination of the foregoing, we have assumed the genuineness of signatures on all documents and instruments, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies. The opinions set forth below are expressly limited to, and we opine only with respect to, the laws of the state of California and the federal income tax laws of the United States of America.

Based upon and subject to the foregoing, we are of the opinion that:

(a) the Amended and Restated Bond Indenture is authorized by and conforms to the requirements of Section 901 of the Bond Indenture, that the Amended and Restated Loan Agreement conforms to the requirements of Section 1001 of the Bond Indenture and Section 10.1 of the Loan Agreement, that all conditions precedent, if any, have been complied with before the Authority enters into and the Trustee consents to the Amended and Restated Bond Indenture and the Amended and Restated Loan Agreement;

(b) Assuming due authorization, execution and delivery thereof by the parties thereto other than the Issuer, the Amended and Restated Bond Indenture and the Amended and Restated Loan Agreement have each been duly authorized by and constitute valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their respective terms; and

(c) as of the date hereof and under existing law, the Modifications, in and of themselves, will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2007A Bonds.

The opinions expressed herein are supplemental to, and are subject to all qualifications, assumptions, reliances and limitations contained in our original bond counsel opinion, dated May 2, 2007, pertaining to the Bonds. We have not undertaken any investigation or reexamination of the facts and circumstances necessary to the rendering of such bond counsel opinion and thus the opinion expressed herein is intended solely as a supplement to that bond counsel opinion and shall not be viewed as a reaffirmation of such opinion. Further, no opinion is expressed hereby as to the original, current or continuing exclusion from gross income of interest on the Series

2007A Bonds, except as the same may be affected by the Modifications. The only opinions rendered hereby are those expressly stated as such herein, and no other opinion shall be implied or inferred as a result of anything contained or omitted herein.

The opinions set forth herein are predicated upon present law and interpretations thereof. We assume no affirmative obligations with respect to any change of circumstances, laws or interpretations thereof after the date hereof that may adversely affect the opinions contained herein or the exclusion from gross income of interest on the 2007A Bonds for federal income tax purposes.

This opinion letter is rendered only for the benefit of the parties addressed above and may not be relied upon by any other party without our prior written consent.

Respectfully yours,

HOLLAND & KNIGHT LLP

SLT/wp

APPENDIX E

ORIGINAL OFFICIAL STATEMENT

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NEW ISSUE
BOOK-ENTRY ONLY

Ratings: See "RATINGS" herein

In the opinion of Holland & Knight LLP, Bond Counsel, rendered in reliance on certain schedules referred to herein and assuming compliance with certain arbitrage rebate and other tax requirements referred to herein, under existing law, interest on the Series 2007A Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference in computing the federal alternative minimum tax. Interest on the Series 2007A Bonds will, however, be taken into account in computing an adjustment made in determining a corporate Series 2007A Bondholder's alternative minimum tax based on such Series 2007A Bondholder's adjusted current earnings. It is also the opinion of Bond Counsel that interest on the Series 2007B Bonds is NOT EXCLUDED from gross income for federal income tax purposes. It is further the opinion of Bond Counsel that, under existing law, interest on the Series 2007 Bonds is exempt from present personal income taxes imposed by the State of California. For a description of the consequences to holders of the Series 2007 Bonds of other provisions of the Internal Revenue Code of 1986, as amended, see "TAX MATTERS" herein.

$45,645,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Variable Rate Revenue Refunding Bonds
(Casa De Las Campanas, Inc.)

$28,700,000 Series 2007A (Tax-exempt) and $16,945,000 Series 2007B (Taxable)

CUSIP NO: 00037CJM3* **CUSIP NO: 00037CJN1***

Dated: Date of Delivery **Price: 100%** **Due: September 1, 2037**

The above-captioned bonds (collectively, the "Series 2007 Bonds") are being issued in two Series (each a "Series") in the aggregate principal amounts shown above. Each Series of the Series 2007 Bonds will accrue interest from the date of original delivery and initially will bear interest at a Weekly Rate. Thereafter, either Series of the Series 2007 Bonds may bear interest in accordance with the Indenture (defined below) at a Daily Rate, an Auction Rate, an Indexed Rate, a Unit Pricing Rate, a Term Rate or Fixed Rate (each, including the Weekly Rate, a "Mode"). The Series 2007 Bonds will be subject to optional, extraordinary and mandatory redemption prior to maturity and to optional and mandatory tender for purchase and remarketing in certain circumstances, all as described herein.

This Official Statement only describes the terms and provisions of the Series 2007 Bonds while in the Daily Mode, Weekly Mode or Auction Mode. If any Series of the Series 2007 Bonds is converted from a Daily Mode, Weekly Mode or Auction Mode to a Mode other than the Daily Mode, Weekly Mode or Auction Mode, this Official Statement will be supplemented or a new official statement or remarketing circular will be provided describing the new Mode.

The Series 2007 Bonds will be issued as fully registered bonds and initially will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2007 Bonds and individual purchases of the Series 2007 Bonds will be made in book-entry form only. For so long as DTC or its nominee, Cede & Co., is the registered owner of the Series 2007 Bonds, (i) payments of the principal and purchase price of and premium, if any, and interest on the Series 2007 Bonds will be made directly to Cede & Co. for payment to its participants for subsequent disbursement to the beneficial owners, and (ii) all notices, including any notice of redemption or notice of conversion to another Mode, shall be mailed only to Cede & Co. See APPENDIX G– "Book-Entry Only System."

While the Series 2007 Bonds are in a Daily Mode or a Weekly Mode, the Series 2007 Bonds will be issued in denominations of $100,000 and any integral multiple of $5,000 in excess thereof. While the Series 2007 Bonds are in an Auction Mode, the Series 2007 Bonds will be issued in denominations of $25,000 and any integral multiple thereof.

Interest on the Series 2007 Bonds in a Daily Mode or Weekly Mode will be payable on the first Business Day of each month. Interest on the Series 2007 Bonds in an Auction Mode is payable as described herein.

The Series 2007 Bonds will be issued under and be secured by a Bond Trust Indenture (the "Indenture") between the ABAG Finance Authority for Nonprofit Corporations (the "Authority") and U.S. Bank National Association, as bond trustee (the "Trustee"). The proceeds of the Series 2007 Bonds will be loaned to Casa de las Campanas, Inc., a California nonprofit public benefit corporation (the "Corporation"), for the purposes described herein. The sources of payment of, and security for, the Series 2007 Bonds are more fully described in this Official Statement.

Payment of principal of and interest on each Series of the Series 2007 Bonds will be insured in accordance with the terms of a financial guaranty insurance policy to be issued simultaneously with the delivery of such Series of the Series 2007 Bonds by

RADIAN ASSET ASSURANCE INC.

In addition, payment of the Purchase Price of the Series 2007 Bonds bearing interest at a Weekly Rate that are subject to optional or mandatory tender for purchase is payable initially from amounts available pursuant to a standby bond purchase agreement (the "Initial Liquidity Facility"), dated as of May 1, 2007, among the Corporation, U.S. Bank National Association, as tender agent, and KBC Bank N.V., New York Branch (the "Initial Liquidity Facility Provider").

UNDER THE INITIAL LIQUIDITY FACILITY, THE INITIAL LIQUIDITY FACILITY PROVIDER IS OBLIGATED TO PURCHASE, SUBJECT TO THE SATISFACTION OF CERTAIN CONDITIONS PRECEDENT, ANY SERIES 2007 BONDS BEARING INTEREST AT A WEEKLY RATE THAT IS SUBJECT TO OPTIONAL OR MANDATORY TENDER FOR PURCHASE AND THAT IS NOT REMARKETED. IF THE INITIAL LIQUIDITY FACILITY PROVIDER CONSENTS THERETO, SUCH OBLIGATION MAY BE EXTENDED TO SERIES 2007 BONDS BEARING INTEREST AT A DAILY RATE. SUCH OBLIGATION MAY BE SUSPENDED OR TERMINATED WITHOUT NOTICE UNDER CERTAIN CIRCUMSTANCES DESCRIBED HEREIN. IN SUCH EVENT, SUFFICIENT FUNDS MAY NOT BE AVAILABLE TO PURCHASE SUCH SERIES 2007 BONDS.

THE SERIES 2007 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NONE OF 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 SERIES 2007 BONDS. THE SERIES 2007 BONDS AND THE OBLIGATION TO PAY PRINCIPAL AND PURCHASE PRICE THEREOF 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 SERIES 2007 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 OR PURCHASE PRICE OF, OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2007 BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

This cover page contains certain information for general reference only. It is not intended to be a summary of the security for or the terms of the Series 2007 Bonds. Investors are instructed to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2007 Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality of the Series 2007 Bonds by Holland & Knight LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Nixon Peabody LLP, San Francisco, California; for the Corporation by its counsel, Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California; for the Trustee by its counsel, Dorsey and Whitney LLP, Irvine, California; for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP; for the Initial Liquidity Facility Provider with respect to the Initial Liquidity Facility by its counsel, Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania, and its Belgian counsel, Linklaters De Bandt, Brussels, Belgium; and for the Bond Insurer by its Senior Vice President and Deputy General Counsel. It is expected that the Series 2007 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about May 2, 2007.

CAIN BROTHERS

The date of this Official Statement is April 25, 2007.

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REGARDING USE OF THIS OFFICIAL STATEMENT

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, any Series 2007 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. No dealer, broker, sales representative or other person has been authorized to give information or to make any representations with respect to the Series 2007 Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The information in this Official Statement is subject to change, and neither the 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 Corporation, the Authority or the Bond Insurer since the date hereof.

THE INFORMATION SET FORTH IN THIS OFFICIAL STATEMENT REGARDING THE AUTHORITY UNDER THE CAPTIONS "THE AUTHORITY" AND "LITIGATION – THE AUTHORITY" HAS BEEN OBTAINED FROM THE AUTHORITY. ALL OTHER INFORMATION HEREIN HAS BEEN OBTAINED FROM THE CORPORATION AND OTHER SOURCES (OTHER THAN THE 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 REPRESENTATION BY THE AUTHORITY OR THE UNDERWRITER. THE AUTHORITY HAS NOT REVIEWED OR APPROVED ANY INFORMATION IN THIS OFFICIAL STATEMENT EXCEPT INFORMATION RELATING TO THE AUTHORITY UNDER THE CAPTIONS "THE AUTHORITY" AND "LITIGATION – THE AUTHORITY." 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 CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE AUTHORITY OR THE CORPORATION SINCE THE DATE HEREOF (OR SINCE THE DATE OF ANY OTHER INFORMATION DATED OTHER THAN THE DATE HEREOF).

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING THE BOND INSURER CONTAINED UNDER THE CAPTION "FINANCIAL GUARANTY INSURANCE" HEREIN AND IN APPENDIX E HERETO, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE BOND INSURER, AND THE BOND INSURER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO: (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE SERIES 2007 BONDS; OR (III) THE TAX STATUS OF THE INTEREST ON THE SERIES 2007A BONDS.

The information in APPENDIX G has been furnished by DTC.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its 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 Series 2007 Bonds have not been registered under the Securities Act of 1933, as amended, and the Indenture has not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Series 2007 Bonds in accordance with applicable provisions of securities laws of the states in which the Series 2007 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have

passed upon the merits of the Series 2007 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2007 BONDS, THE UNDERWRITER MAY OVER ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2007 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

In making an investment decision, investors must rely upon their own examination of the terms of the offering, including the merits and risks involved.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or similar words. Such forward-looking statements include, among others, statements made under the caption "BONDHOLDERS' RISKS" herein and in APPENDIX A hereto.

The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performance or achievement expressed or implied by such forward-looking statements. The Corporation does not plan to issue any updates or revisions to those forward-looking statements if or when their expectations, or events, conditions or circumstances on which such statements are based, occur or fail to occur.

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OFFICIAL STATEMENT
relating to

$45,645,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
VARIABLE RATE REVENUE REFUNDING BONDS
(CASA DE LAS CAMPANAS, INC.), SERIES 2007

Consisting of:

$28,700,000	$16,945,000
Series 2007A (Tax-Exempt)	Series 2007B (Taxable)

INTRODUCTION

The description and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. See APPENDIX C for definitions of certain words and terms used herein. This Official Statement describes the terms and provisions of the Series 2007 Bonds while in the Daily Mode, Weekly Mode and Auction Mode. In the event the Series 2007 Bonds are changed to a Mode other than the Daily Mode, Weekly Mode or Auction Mode, this Official Statement will be supplemented or a new reoffering document will be provided to describe the new Mode.

Purpose of this Official Statement

The purpose of this Official Statement, including the cover page and the appendices hereto, is to set forth information in connection with the offering by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") of its $28,700,000 Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.), Series 2007A (the "Series 2007A Bonds") and its $16,945,000 Taxable Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.), Series 2007B (the "Series 2007B Bonds, and together with the Series 2007A Bonds, the "Series 2007 Bonds"). The Series 2007 Bonds will be issued under a Bond Trust Indenture, dated as of May 1, 2007 (the "Indenture"), between the Authority and U.S. Bank National Association, as bond trustee (the "Trustee"). The Authority will lend the proceeds of the Series 2007 Bonds to Casa de las Campanas, Inc. (the "Corporation"), which loan will be evidenced by a Loan Agreement, dated as of May 1, 2007 (the "Loan Agreement"), between the Authority and the Corporation.

The Corporation

The Corporation is a California nonprofit public benefit corporation and is exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). The Corporation was originally organized in 1989 to provide multi-level housing, non-acute health care and related services to the elderly. The Corporation owns a continuing care retirement facility, which includes 394 units of independent living, an 18-unit assisted living unit with a capacity of 26 beds, an 18-unit dementia/assisted living unit with a capacity of 27 beds, and an adjacent 99-bed skilled nursing facility located in the Rancho Bernardo area of northern San Diego County, 25 miles from downtown San Diego, California.

More detailed information concerning the Corporation and its operations and financial condition is set forth in APPENDIX A. The consolidated audited financial statements of Casa de las Campanas, Inc. for the fiscal years ended July 31, 2005 and 2006 are set forth in APPENDIX B.

The Authority

The Authority is a joint powers authority duly organized and existing under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of the Government Code of the State of California (the "Act") and a Joint Powers Agreement, dated as of April 1, 1998, as amended as of September 18, 1990 and June 9, 1992, in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of the Authority members with purposes serving the public interest and is authorized to issue revenue bonds to finance construction, expansion, remodeling, renovation, furnishing, equipping, and acquisition of facilities operated by nonprofit corporations.

Purpose of the Series 2007 Bonds

The proceeds of the Series 2007 Bonds will be used, together with other available funds, to (i) advance refund the entire outstanding principal amount of the California Health Facilities Financing Authority 1998 Series A Insured Bonds (Casa de las Campanas) (the "Refunded Bonds"); (ii) reimburse the Corporation for certain prior capital expenses (the "Project"), (iii) fund a debt service reserve fund, and (iv) pay certain expenses incurred in connection with the issuance of the Series 2007 Bonds, including the costs of obtaining the Policies (as hereinafter defined). See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS."

Security for the Series 2007 Bonds

General

THE SERIES 2007 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, 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 SERIES 2007 BONDS. THE SERIES 2007 BONDS AND THE OBLIGATION TO PAY PRINCIPAL AND PURCHASE PRICE THEREOF 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 SERIES 2007 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 OR PURCHASE PRICE OF, OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2007 BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

The Series 2007 Bonds are special limited obligations of the Authority and are payable solely from (i) payments or prepayments made under the Loan Agreement (other than Unassigned Rights, as

defined in the Indenture) and the Deed of Trust (described below), (ii) moneys and investments held by the Trustee under, and to the extent provided in, the Indenture, and (iii) in certain circumstances, proceeds from certain insurance and condemnation awards.

Pledge of Gross Revenues and Lien of Deed of Trust

The Series 2007 Bonds will be issued under and be secured by the Indenture, and the Authority will loan the proceeds from the sale of the Series 2007 Bonds to the Corporation pursuant to the Loan Agreement. The obligations of the Corporation to make payments required under the Loan Agreement, the Policies, the Liquidity Facility and all other Parity Debt will be secured by (i) a security interest in the Gross Revenues of the Corporation and (ii) a Deed of Trust with Assignment of Leases and Rents, and Security Agreement and Fixture Filing (the "Deed of Trust") creating a first mortgage lien on all of the real property and fixtures of the Corporation (the "Mortgaged Facilities"), in each case subject to Permitted Encumbrances. See "BONDHOLDERS' RISKS" for a description of, among other matters, possible instances in which such security interest in the Gross Revenues of the Corporation or the lien of the Deed of Trust may not have priority or may not be enforceable.

Debt Service Reserve Fund

Payment of the principal of and interest on the Series 2007 Bonds will be additionally secured by cash deposited to the credit of the Debt Service Reserve Fund created under the Indenture. See "SECURITY FOR THE SERIES 2007 BONDS" and "Summary of Principal Documents – Summary of Certain Provisions of the Indenture – Funds – Debt Service Reserve Fund" in APPENDIX C.

Bond Insurance

Payment of principal of and interest on each Series of the Series 2007 Bonds will be insured in accordance with the terms of a separate financial guaranty insurance policy (each, a "Policy," and collectively, the "Policies") to be issued by Radian Asset Assurance Inc. (the "Bond Insurer") simultaneously with the delivery of such Series of the Series 2007 Bonds. For further information, see the information under the captions "BOND INSURANCE" and "BONDHOLDERS' RISKS – Bond Insurance" and in APPENDIX E – "Specimen Financial Guaranty Insurance Policy." The Policies do not guarantee the payment of purchase price in respect of the Series 2007 Bonds tendered by the owners thereof.

Initial Liquidity Facility

Payment of the Purchase Price of the Series 2007 Bonds bearing interest at a Weekly Rate that are subject to optional or mandatory tender for purchase and not remarketed is payable initially from amounts available pursuant to a standby bond purchase agreement (the "Initial Liquidity Facility"), dated as of May 1, 2007, among the Corporation, U.S. Bank National Association, as tender agent, and KBC Bank N.V., New York Branch (the "Initial Liquidity Facility Provider"). With the consent of the Initial Liquidity Facility Provider, the Initial Liquidity Facility may also provide for the purchase of Series 2007 Bonds bearing interest at a Daily Rate that are so tendered and not remarketed. The Initial Liquidity Facility will expire on May 2, 2012, but may be terminated prior to that date, extended or replaced. In addition, the obligation of the Initial Liquidity Facility Provider to purchase Series 2007 Bonds under the Initial Liquidity Facility is subject to certain conditions, and in certain circumstances such obligation may be terminated without notice. For further information, see the information under the caption "LIQUIDITY FACILITY."

For further information concerning the security for the Series 2007 Bonds, see "SECURITY FOR THE SERIES 2007 BONDS."

Additional and Outstanding Indebtedness

In addition to its obligations with respect to the Series 2007 Bonds, the Corporation may incur other indebtedness that may be secured by a security interest in Gross Revenues and the lien of the Deed of Trust on a parity with the Corporation's obligation to make Loan Repayments under the Loan Agreement, if issued for the purposes and subject to the conditions provided in the Loan Agreement. See "Summary of Principal Documents – Summary of Certain Provisions of the Loan Agreement – Limitations on Additional Indebtedness" in APPENDIX C. Both the Corporation's obligations under the Liquidity Facility and the Corporation's obligations to make regularly-scheduled payments (but not termination payments) under the Swap Agreements (hereinafter defined) constitute Parity Debt.

In addition, Additional Bonds may be issued under the Indenture in the future without meeting the conditions contained in the Loan Agreement if such Additional Bonds are used solely to refund the Series 2007B Bonds. It is expected that Additional Bonds will be issued in 2008 (the "Series 2008A Bonds") for such purpose without meeting the conditions contained in the Loan Agreement.

Upon the issuance of the Series 2007 Bonds, the Corporation's obligations with respect to the Series 2007 Bonds and certain capital leases will constitute the only outstanding indebtedness of the Corporation.

Swap Transaction

The Corporation has entered into four interest rate exchange agreements in connection with the Series 2007 Bonds. See "PLAN OF FINANCE – Interest Rate Swap Transaction."

Bondholders' Risks

AN INVESTMENT IN THE SERIES 2007 BONDS INVOLVES A CERTAIN DEGREE OF RISK. A PROSPECTIVE BONDHOLDER IS ADVISED TO READ "SECURITY FOR THE SERIES 2007 BONDS" and "BONDHOLDERS' RISKS" HEREIN FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE SERIES 2007 BONDS. Careful consideration should be given to these risks and other risks described elsewhere in this Official Statement. Among other things, since the Series 2007 Bonds are payable from the Gross Revenues of the Corporation, and other moneys pledged to such payment, careful evaluation should be made of certain factors that may adversely affect the ability of the Corporation to generate sufficient revenues to pay expenses of operation, including the principal of, premium, if any, and interest on the Series 2007 Bonds. See "BONDHOLDERS' RISKS."

Additional Information

The following descriptions and summaries of the Series 2007 Bonds, the Indenture, the Loan Agreement, the Bond Insurer, the Policies, the Initial Liquidity Facility Provider, the Initial Liquidity Facility and the Remarketing Agreement in this Official Statement are qualified by reference to the complete text of the documents being described or summarized. Copies of such documents will be available for inspection at the designated corporate trust office of the Trustee.

THE SERIES 2007 BONDS

This Official Statement summarizes certain terms and provisions of the Series 2007 Bonds only while in the Daily Mode, Weekly Mode or Auction Mode. If any Series 2007 Bond is changed from a Daily Mode, Weekly Mode or Auction Mode, to a Mode other than the Daily Mode, Weekly Mode or Auction Mode, the Corporation will supplement this Official Statement or deliver a new official statement or remarketing circular describing the new Mode.

The following is a summary of certain provisions of the Series 2007 Bonds. Reference is made to the Series 2007 Bonds and to the Indenture for a more detailed description of such provisions. The discussion herein is qualified by such reference. See APPENDIX C – "Summary of Principal Documents" and APPENDIX F – "Auction Procedures."

General

The Series 2007 Bonds will be issued as fully registered bonds without coupons and will be dated the date of original delivery. The Series 2007 Bonds of each Series will be issued in the aggregate principal amounts set forth on the cover page hereof and will mature on September 1, 2037, subject to redemption prior to maturity. The Series 2007 Bonds initially will bear interest at a Weekly Rate. Thereafter, each Series of the Series 2007 Bonds may be converted to another Mode, subject to the satisfaction of certain conditions specified in the Indenture. Each Series of the Series of Series 2007 Bonds will be in the same Mode and bear interest at the same Interest Rate at any given time.

The Series 2007 Bonds will be subject to optional, extraordinary and mandatory redemption as described under "THE SERIES 2007 BONDS - Redemption" and will be subject to optional and mandatory tender, as applicable, as described under "THE SERIES 2007 BONDS – Tenders."

The Series 2007 Bonds will be made available to Beneficial Owners in book-entry form only, in Authorized Denominations of $100,000 and any integral multiple of $5,000 in excess thereof while in the Daily Mode or the Weekly Mode and in Authorized Denominations of $25,000 and any integral multiple thereof while in the Auction Mode.

The Series 2007 Bonds of each Series will be registered in the name of Cede & Co. as nominee of The Depository Trust Company ("DTC"). DTC will act as securities depository for the Series 2007 Bonds. See APPENDIX G – "Book-Entry Only System." Except as described in APPENDIX G – "Book-Entry Only System," Beneficial Owners of the Series 2007 Bonds will not receive certificates representing their interests in the Series 2007 Bonds. So long as Cede & Co. is the registered owner of a Series 2007 Bond, the principal and Purchase Price of, and the interest on, the Series 2007 Bonds are payable by wire transfer by the Trustee (or in the case of the Purchase Price, by the Tender Agent) to Cede &Co., as nominee for DTC which, in turn, will remit such amounts to DTC Participants for subsequent disbursement to the Beneficial Owners. So long as all records of ownership of a Series of the Series 2007 Bonds are maintained through the book-entry only system, all payments to the Beneficial Owners of such Series 2007 Bonds will be made in accordance with the procedures described in APPENDIX G – "Book-Entry Only System."

If the book-entry only system for the Series 2007 Bonds is discontinued, the following provisions would apply. Principal of and premium, if any, or redemption price of the Series 2007 Bonds will be payable at the Principal Office of the Trustee to the registered owners of such Series 2007 Bonds on such date. Interest on the Series 2007 Bonds will be payable to the persons whose names appear on the Bond Register as the holders thereof as of the close of business on the Record Date (as hereinafter defined) for each Interest Payment Date. Payment of the interest on the Series 2007 Bonds is required to be made by

wire transfer in immediately available funds to an account within the United States of America designated by each holder thereof.

Notwithstanding the foregoing, payment of Defaulted Interest on the Series 2007 Bonds shall cease to be payable to the holders of such Series 2007 Bonds on the day, whether or not a Business Day, immediately preceding each Interest Payment Date (i.e., the Record Date) and shall be payable to the holders in whose names such Series 2007 Bonds are registered at the close of business on the Special Record Date for the payment of such Defaulted Interest fixed by the Trustee, which shall be not more than 15 or less than 10 days prior to the date of the proposed payment and not less than 10 days after receipt by the Trustee of the notice of the proposed payment.

Interest on the Series 2007 Bonds will be calculated as described below and will be payable on each Interest Payment Date for the Series 2007 Bonds in an amount equal to all interest which has accrued during the period from (and including) the last such Interest Payment Date to (but not including) such current Interest Payment Date. In no event shall any Series 2007 Bond bear interest at a rate per annum in excess of the Maximum Rate. "Maximum Rate" means the lesser of (a) 12% per annum, (b) the maximum interest rate permitted by law, and (c) with respect to Series 2007 Bonds in the Daily Mode and the Weekly Mode, the maximum interest rate provided by the Liquidity Facility to pay tenders of such Series 2007 Bonds.

The Indenture provides for a Tender Agent. At the time the Series 2007 Bonds are issued, the Trustee will also serve as the Tender Agent under the Indenture.

Interest on the Series 2007 Bonds shall be calculated on the basis of (i) a 365- or 366-day year, as applicable, for the number of days actually elapsed, during a Daily Mode or a Weekly Mode and (ii) a 360-day year for the number of days elapsed during an Auction Mode of 183 days or less and a 360-day year of twelve 30-day months during an Auction Period of more than 183 days. Interest accrued on the Series 2007 Bonds shall be payable in arrears on the applicable Interest Payment Dates for such Series 2007 Bonds.

Determination of Interest Rates During the Weekly Mode and the Daily Mode

The Series 2007 Bonds initially will bear interest at a Weekly Rate. Thereafter, each Series of the Series 2007 Bonds may be converted to another Mode, subject to the satisfaction of certain conditions specified in the Indenture. Each Series of Series 2007 Bonds will bear interest at the initial Weekly Rate applicable thereto from the date of initial delivery of such Series 2007 Bonds through the Initial Interest Period, and will thereafter bear interest at the Weekly Rate applicable thereto for subsequent Interest Periods. Interest on the Series 2007 Bonds in the Weekly Mode (or if applicable, the Daily Mode) shall accrue at the rate of interest per annum determined by the Remarketing Agent on and as of the Rate Determination Date as the minimum rate of interest which, in the judgment of the Remarketing Agent under then-existing market conditions, would result in the sale of such Series 2007 Bonds, on the first day of the Interest Period immediately succeeding the Rate Determination Date in the case of the Weekly Mode (and, if applicable, on the Rate Determination Date in the case of the Daily Mode), at a price equal to the Purchase Price. Such determination shall be conclusive and binding upon the Interested Parties.

During the Weekly Mode, the Remarketing Agent shall establish the Weekly Rate by 4:00 p.m. Eastern time on each Rate Determination Date. The Weekly Rate shall be in effect (1) initially, from and including the first day any Bonds become subject to the Weekly Mode to and including the following Wednesday and (2) thereafter, from and including each Thursday to and including the following Wednesday. The Remarketing Agent shall make the Weekly Rate available (i) after 4:00 p.m. Eastern time on the Rate Determination Date by telephone to the Trustee, any Bondholder or other Interested

Party who contacts the Remarketing Agent and (ii) by Immediate Notice to the Trustee and the Bond Insurer not later than 2:00 p.m. Eastern time on the Business Day after the Rate Determination Date.

If any Series of the Series 2007 Bonds is subsequently converted to the Daily Mode, the Remarketing Agent shall establish the Daily Rate by 9:30 a.m. Eastern time on each Business Day. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Business Day. The Remarketing Agent shall make the Daily Rate available (i) by telephone to the applicable Trustee, any requesting Bondholder or other Interested Party who contacts the Remarketing Agent and (ii) by Immediate Notice to the Trustee and the Bond Insurer by 2:00 p.m. Eastern time on the Business Day after the Rate Determination Date.

If (a) the Remarketing Agent fails or is unable to determine the interest rate(s) or Interest Periods with respect to such Series 2007 Bonds, or (b) the method of determining the interest rate(s) or Interest Periods with respect to such Series 2007 Bonds shall be held to be unenforceable by a court of law of competent jurisdiction, such Series 2007 Bonds shall thereupon, until such time as the Remarketing Agent again makes such determination or until there is delivered an Opinion of Counsel to the effect that the method of determining such rate is enforceable, bear interest from the last date on which such rate was determined in the case of clause (a) and from the date on which interest was legally paid in the case of clause (b), at an annual rate equal to the BMA Municipal Swap Index, announced or published immediately prior to the date such rate is determined.

Each Series 2007 Bond during a Daily Mode or Weekly Mode authenticated prior to the first Interest Payment Date thereon shall bear interest from the date of the first authentication and delivery of such Bond. Interest payable on a Series 2007 Bond during a Daily Mode or a Weekly Mode shall be payable on each Interest Payment Date for the period from the later of (i) with respect to Series 2007 Bonds in a Daily Mode, commencing on a Business Day and extending to, but not including, the next succeeding Business Day, or (ii) with respect to Series 2007 Bonds in a Weekly Mode, commencing on the first day such Bonds begin to accrue interest in the Weekly Mode and ending on the next succeeding Wednesday and, thereafter commencing on each Thursday and ending on Wednesday of the following week.

The Interest Payment Date for Series 2007 Bonds during a Daily Mode or a Weekly Mode is the first Business Day of each month.

Remarketing Agent

The initial Remarketing Agent for the Series 2007 Bonds will be Cain Brothers & Company, LLC (together with any successor, the "Remarketing Agent"). The Indenture provides that the Corporation shall appoint a Remarketing Agent, with the consent of the Bond Insurer. The Remarketing Agent may be removed at any time by the Corporation, with the consent of the Bond Insurer. In connection with the issuance of the Series 2007 Bonds, the Corporation and a Remarketing Agent will enter into a Remarketing Agreement which will provide, among other things, that the Remarketing Agent will determine the Weekly Rate for each Series of Series 2007 Bonds in accordance with the Indenture.

Determination of Interest Rates in the Auction Mode

Certain terms used herein have the following meanings, and certain additional terms used herein are defined in APPENDIX F.

"Auction Date" means the Business Day immediately preceding the first day of each Auction Period (or such other day that the Market Agent shall establish as the Auction Date therefor as described

under the caption "Changes in Auction Period or Auction Date" in APPENDIX F); provided, however, that the last Auction Date in an Auction Period shall be the earlier of (i) the Business Day next preceding the last Interest Payment Date before a Mode Change Date and (ii) the Business Day next preceding the last Interest Payment Date before the Maturity Date.

"Auction Period" means:

1) the period from and including any Auction Rate Mode Change Date, to and including the first Auction Date following such Auction Rate Mode Change Date, as applicable; and

2) thereafter until a Mode Change Date or until the Maturity Date, each period of 7 days (unless changed as described under the caption "Changes in Auction Period or Auction Date" in APPENDIX F), from and including the last Interest Payment Date for the immediately preceding Auction Period, to and including the next succeeding Auction Date or, in the event of an Auction Period with an Interest Payment Date on a Monday, the Sunday following the next succeeding Auction Date or, in the event of a change to a different Mode, to but excluding the Mode Change Date; provided, if any day that would be the last day of any such period does not immediately precede a Business Day, such period shall end on the next day which immediately precedes a Business Day.

"Auction Rate" means the rate of interest to be borne by the Series 2007 Bonds during each respective Auction Period, not greater than the Maximum Rate, which, after the initial Auction Period applicable to such Series 2007 Bond (i) if Sufficient Clearing Bids exist, will be the Winning Bid Rate applicable to such Series 2007 Bond; provided, however, that if all Series 2007 Bonds of a series that are subject to Auction (as described below) on the same Auction Date are the subject of Submitted Hold Orders, the Auction Rate will be the All Hold Rate; and (ii) if Sufficient Clearing Bids do not exist, will be the Maximum Rate.

Interest

Upon conversion of any Series of the Series 2007 Bonds to the Auction Mode, the Series 2007 Bonds of such Series will bear interest at the Auction Rates determined as described herein unless and until they are converted to another Mode as described below. The Auction Rate for the Series 2007 Bonds for each Auction Period subsequent to the initial Auction Period applicable to such Series 2007 Bonds will, subject to certain exceptions herein described, be equal to the rate that the Auction Agent advises has resulted on the Auction Date from the implementation of the auction procedures set forth in the Indenture and summarized in APPENDIX F (the "Auction Procedures") in which persons determine to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell such Series 2007 Bonds while in the Auction Mode. Each periodic implementation of the Auction Procedures is hereinafter referred to as an "Auction."

In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 28 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Rate for the new Auction Period shall be the same as the Auction Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 28 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day, then to the next succeeding day which is followed by a Business Day), and the Auction Rate in effect for the preceding Auction Period shall continue in effect for the Auction Period as so extended. In the event the Auction Period is extended as set forth in clause (ii) above, an Auction shall be held on the last Business Day of the Auction Period as so extended.

In the event that the Series 2007 Bonds are not rated or if such Series 2007 Bonds are no longer maintained in book-entry only form by the Securities Depository, no Auctions will be held for such Series 2007 Bonds and the Auction Rate for such Series 2007 Bonds will be the Maximum Rate.

The Auction Procedures for the Series 2007 Bonds shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Trustee or the Corporation of the occurrence of an event of default under the Indenture resulting from a failure by the Authority to pay principal, premium or interest on any such Bonds when due, together, with the failure by the Bond Insurer to honor its obligations under the Policies, but shall resume two Business Days after the date on which the Auction Agent receives written notice from the Trustee that such event of default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter. The Auction Rate during this period shall be the Maximum Rate.

Auction Agent

The Indenture provides that the Corporation shall appoint an Auction Agent for any Series of Series 2007 Bonds in Auction Mode, with the consent of the Bond Insurer. The Auction Agent may be removed at any time by the Corporation, with the consent of the Bond Insurer. In such connection with, the Corporation and an Auction Agent will enter into an Auction Agreement which will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures. The terms and provisions of the Auction Agreement must be acceptable to the Bond Insurer.

Broker-Dealer; Marketability

Each Auction requires the participation of one or more broker-dealers ("Broker-Dealer" or "Broker-Dealers"). If a Series of the Series 2007 Bonds is converted to an Auction Mode, the Auction Agent will enter into a Broker-Dealer Agreement with each Broker-Dealer providing for the participation of such Broker-Dealers in Auctions. No Broker-Dealer shall have the right to consent to the appointment of other Broker-Dealers. The ability to sell Series 2007 Bonds in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all of such Series 2007 Bonds at a rate equal to or less than the Maximum Rate.

Changes in Auction Periods

During any Auction Period, the Corporation may, from time to time, on any Interest Payment Date, change the length of the Auction Period to a period of any integral multiple of seven days or to a six-month or an integral multiple of six months Auction Period (provided that the length of the first Auction Period after such change in length or change in Auction Date may be the number of days necessary to result in the immediately following Auction Period having a length which is an integral multiple of seven days or six months, as applicable) in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by Series 2007 Bonds. The Corporation shall initiate the change in the length of the Auction Period by giving written notice at least ten (10) Business Days prior to the Auction Date for such Auction Period to the Authority, the Trustee, the Auction Agent, the Market Agent, the Broker-Dealer(s), the Bond Insurer and the Securities Depository that the Auction Period for the Series 2007 Bonds specified in such notice will change if the conditions described below are satisfied and the proposed effective date of the change. Any notice of any such change in the length of an Auction Period shall be accompanied by (a) a written statement from all of the Broker-Dealers, addressed to the Authority and the Trustee, to the effect that the Broker-Dealers have determined, in their sole judgment, that such change in the length of the Auction Period would result in the lowest aggregate cost, taking into account interest and other determinable fees

and expenses, being payable with respect to such Series 2007 Bonds over the next 12 months commencing with the date of such change, or (b) an approval in writing of such change by a duly authorized officer of the Authority, or (c) a Favorable Opinion of Bond Counsel, to the effect that such approval is not required for the continued validity and enforceability of such Series 2007 Bonds in accordance with their terms. Except as permitted by the proviso immediately above, any such changed Auction Period shall be for a period of any integral multiple of seven days or for a period of six months or any integral multiple of six months and shall be for all of the Series 2007 Bonds identified in the Corporation's notice referred to immediately above. The change in the length of an Auction Period for all or a portion of the Series 2007 Bonds shall not be allowed unless Sufficient Clearing Bids for such Series 2007 Bonds existed at both the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change. The change in length of such Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Series 2007 Bonds subject to such Auction, except to the extent an Existing Owner submits an Order with respect to its Series 2007 Bonds subject to such Auction. If Sufficient Clearing Bids do not exist at the Auction on the Auction Date for such first Auction Period, the Auction Rate for the next Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

Changes in Auction Dates

During any Auction Period, the Market Agent, with the written consent of the Corporation and the Bond Insurer, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the series of Series 2007 Bond affected thereby. The Market Agent shall provide notice of its determination to specify an earlier Auction Date for an Action Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Trustee, the Corporation, the Authority, the Broker-Dealers, the Auction Agent and the Securities Depository.

Changes to the Auction Period and Auction Dates do not require an amendment of the Auction Procedures or any Bondholder consent. See "Changes in Auction Period or Auction Date" in APPENDIX F.

Amendment of Auction Procedures

During an Auction Period, with the prior written consent of the Bond Insurer, the provisions summarized in APPENDIX F, including, without limitation, the definitions of All-Hold Rate, Interest Payment Date and Auction Rate, may be amended pursuant to the provisions of the Indenture summarized under "Summary of Principal Documents – Summary of Certain Provisions of the Indenture – Supplemental Indentures" in APPENDIX C. If the amendment is pursuant to the provisions summarized under such subheading, and on the first Auction Date occurring at least 20 days after the date on which the Trustee mailed notice of such proposed amendment to the holders of the Outstanding Series 2007 Bonds affected by such amendment, as required by such provisions, (i) Sufficient Clearing Bids have been received or all of such Series 2007 Bonds are subject to Submitted Hold Orders, and (ii) there is delivered to the Authority and the Trustee a Favorable Opinion of Bond Counsel with respect to such amendment, the proposed amendment shall be deemed to have been consented to by the holders of all Outstanding Series 2007 Bonds affected by such amendment.

Restrictions on Transfers during Auction Period; Secondary Markets

During an Auction Period, so long as ownership of Series 2007 Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a Beneficial Owner may sell, transfer or otherwise dispose of its Series 2007 Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member (as defined in APPENDIX F) advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of such Series 2007 Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Series 2007 Bonds to that Broker-Dealer or to another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of the foregoing if such Broker-Dealer remains the Existing Owner of such Bonds immediately after such sale, transfer or disposition.

Changes in Modes

The Corporation may direct that a Series of the Series 2007 Bonds be converted to another Mode upon satisfaction of certain conditions set forth in the Indenture.

Changes to Modes Other Than the Fixed Rate Mode

The Corporation may effect a change in Mode with respect to the Series 2007 Bonds to another Mode (other than the Fixed Rate Mode) by giving, no later than the 15th day preceding the proposed Mode Change Date, Immediate Notice to the Authority, the Trustee, the Tender Agent, the Remarketing Agent (if any), the Auction Agent (if any), the Broker-Dealer (if any), the Liquidity Facility Provider (if any) and the Bond Insurer, specifying the Series 2007 Bonds to which such notice relates and its intention to effect a change in the Mode from the Mode then in effect (the "Current Mode") to another Mode (the "New Mode") specified in such written notice, and if the change is to an Auction Mode, the length of the initial Auction Period. Notice of the Mode Change Date shall be given to the holders as described below under the caption "THE SERIES 2007 BONDS – Tenders – Mandatory Purchase on Mode Change Date."

The New Mode shall commence on the Mode Change Date and interest rate(s) with respect to such Bonds in the New Mode shall be determined as provided in the Indenture.

The following conditions precedent must be satisfied in order to change to the New Mode on the Mode Change Date:

(a) The Mode Change Date shall be a Business Day.

(b) As applicable to such Series 2007 Bonds to be converted, the Trustee, the Authority, the Corporation, the Tender Agent, the Auction Agent (if any), the Liquidity Facility Provider (if any), the Bond Insurer and the Remarketing Agent (if any) shall have received on the Mode Change Date a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Trustee, the Authority, the Tender Agent, the Auction Agent (if any), the Broker-Dealers (if any), the Liquidity Facility Provider (if any), the Bond Insurer and the Remarketing Agent (if any).

(c) If the Current Mode is a Mode other than an Auction Mode and the New Mode is an Auction Mode, the Corporation shall have appointed an Auction Agent and a Broker-Dealer.

(d) If the Current Mode is the Auction Mode, the Corporation shall have appointed a Remarketing Agent and a Tender Agent (other than in the case of a change to a Fixed Rate Mode).

(e) The Corporation shall deliver to the Tender Agent a Liquidity Facility if such a Liquidity Facility is required to be in effect under the terms of the Indenture.

(f) If there is no Liquidity Facility in effect to provide funds for the purchase of the Series 2007 Bonds to be converted to the New Mode on the Mode Change Date, the remarketing proceeds available on the Mode Change Date shall not be less than the amount required to purchase all of the Series 2007 Bonds which are converting on such Mode Change Date at the Purchase Price.

(g) Except with respect to a change from the Daily Mode to the Weekly Mode or vice versa, the Bond Insurer shall have consented to such conversion.

(h) Except with respect to a change from the Daily Mode to the Weekly Mode or vice versa, the Trustee shall receive from each Rating Agency then rating the Series 2007 Bonds, the ratings applicable to such Series 2007 Bonds immediately following the Mode Change Date.

In the event that any of the conditions have not been satisfied by the Mode Change Date for a series of Series 2007 Bonds, the New Mode shall not take effect for such Series 2007 Bonds proposed to be converted to a New Mode, such Series 2007 Bonds shall not be purchased on the proposed Mode Change Date. If the change was from an Auction Mode, such Series 2007 Bonds proposed to be changed to the New Mode shall remain in the Auction Mode and the Auction Period shall automatically convert to a seven day period commencing on the failed Mode Change Date and the interest rate borne by such Series 2007 Bonds proposed to be changed to the New Mode during the Auction Period commencing on such failed Mode Change Date shall be the Maximum Rate until the first Auction Date after the proposed Mode Change Date. If the change was from the Daily Mode or the Weekly Mode, such Series 2007 Bonds shall be automatically changed to a Daily Mode.

Changes to Fixed Rate Mode

At the option of the Authority and upon the direction of the Corporation, the Corporation may effect a change in Mode with respect to any Series 2007 Bonds to the Fixed Rate Mode by giving, not less than 30 days (or such shorter time as may be agreed to by the Trustee, the Remarketing Agent (if any) and the Auction Agent (if any)) before the proposed Mode Change Date, written notice to the Trustee, the Authority, the Tender Agent, the Auction Agent (if any), the Broker-Dealers (if any), the Liquidity Facility Provider (if any), the Remarketing Agent (if any), the Bond Insurer and each Rating Agency then rating such Series 2007 Bonds proposed to be changed to the New Mode stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed Mode Change Date. Such notice shall be accompanied by an approval in writing of the change to the Fixed Rate Mode by the Authority and the Bond Insurer.

The New Mode shall commence on the Mode Change Date and the interest rate(s) with respect to such Bonds in the New Mode shall be determined as provided in the Indenture.

The following conditions precedent must be satisfied in order for the Fixed Rate Mode to take effect:

(a) The Mode Change Date shall be a Business Day.

(b) Not less than fifteen (15) days next preceding the Mode Change Date, the Tender Agent shall mail, in the name of the Authority, a note of such proposed change to the Holders of the Series 2007 Bonds proposed to be changed to the Fixed Rate stating that the Mode will be changed to the Fixed Rate

Mode, the proposed Mode Change Date and that such Holder is required to tender such Holder's Series 2007 Bonds proposed to be changed to the Fixed Rate for purchase on such proposed Mode Change Date.

(c) As applicable to such Series 2007 Bonds to be converted, the Trustee, the Authority, the Remarketing Agent (if any), the Bond Insurer, the Auction Agent (if any) and the Corporation shall have received, on the Mode Change Date, a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Authority, the Trustee, the Remarketing Agent (if any), the Bond Insurer and the Auction Agent (if any).

(d) Prior to the conversion to the Fixed Rate Mode, the certificate of the Remarketing Agent setting forth a maturity and amortization schedule for the converted Series 2007 Bonds shall be provided to the Trustee, the Bond Insurer, the Authority and the Corporation.

(e) Prior to the conversion of a series of Series 2007 Bonds to the Fixed Rate Mode, a firm underwriting or purchase contract from a recognized firm of bond underwriters or recognized institutional investors to underwrite or purchase all Series 2007 Bonds proposed to be changed to the Fixed Rate which are to be converted on such Mode Change Date at a price of 100% of the principal amount thereof, which contract may be subject to conditions to purchase, shall be provided to the Authority and the Corporation.

If any of the conditions precedent have not been satisfied on or prior to the Mode Change Date, the Fixed Rate Mode shall not become effective and all such Series 2007 Bonds proposed to be changed to the Fixed Rate Mode shall be converted to a Daily Mode; provided that if the change was from an Auction Mode, such Series 2007 Bonds proposed to be changed to the Fixed Rate Mode shall remain in the Auction Mode, the Auction Period shall automatically convert to a seven day period commencing on the failed Mode Change Date and the interest rate borne by such Bonds during the Auction Period commencing on such failed Mode Change Date shall be the Maximum Rate until the first Auction Date after the proposed Mode Change Date.

Tenders

The Indenture provides that with respect to Series 2007 Bonds registered in the Bond Register in the name of Cede & Co. as nominee of DTC, all tenders and deliveries of such Series 2007 Bonds under the provisions of Indenture shall be made pursuant to DTC's procedures as in effect from time to time, and none of the Authority, the Bond Insurer, the Initial Liquidity Facility Provider, the Corporation, the Trustee or the Remarketing Agent shall have any responsibility for or liability with respect to the implementation of such procedures.

Optional Tenders of Series 2007 Bonds in the Daily Mode or the Weekly Mode

The holders of Eligible Bonds (as hereinafter defined) in the Daily Mode or the Weekly Mode may elect to have their Series 2007 Bonds (or portions of those Series 2007 Bonds in amount equal to integral multiples of the lowest Authorized Denomination) purchased on any Business Day at a price equal to the Purchase Price: (i) in the case of Series 2007 Bonds in the Daily Mode, upon delivery of an irrevocable telephonic notice of tender to the Remarketing Agent, the Trustee and the Tender Agent not later than 11:00 a.m. Eastern time on the Purchase Date specified by the holder; and (ii) in the case of Series 2007 Bonds in the Weekly Mode, upon delivery of an irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent, the Trustee and the Tender Agent, promptly confirmed in writing to the Tender Agent, not later than 4:00 p.m. Eastern time on a Business Day not less than seven (7) days before the Purchase Date specified by the holder in such notice. "Eligible Bonds" are any Series 2007 Bonds other than Liquidity Facility Bonds or Series 2007 Bonds

owned by, for the account of, or on behalf of, the Authority or the Corporation or any affiliate of the Corporation.

Such notices of tender shall state the CUSIP number, the series of Series 2007 Bond, Bond number (if the series of the Series 2007 Bond is not registered in the name of the Securities Depository) and the principal amount of the portion of such Series 2007 Bond to be optionally tendered, and the Purchase Date on which such portion is to be purchased.

Mandatory Purchase on Mode Change Date

Series 2007 Bonds to be changed from one Mode to another (other than a change to the Fixed Rate Mode) are subject to mandatory purchase on the Mode Change Date at the Purchase Price. The Tender Agent shall give Immediate Notice of such mandatory purchase to the holders of such Series 2007 Bonds no less than fifteen (15) days prior to the Mandatory Purchase Date. The notice shall state the Mandatory Purchase Date, the Purchase Price and that interest on such Series 2007 Bonds shall cease to accrue from and after the Mandatory Purchase Date. Series 2007 Bonds to be changed to the Fixed Rate Mode are subject to mandatory purchase on the Mode Change Date at the Purchase Price. Not less than the 15th day next preceding the Mode Change Date, the Tender Agent shall mail, in the name of the Authority, a notice of such proposed change to the holders of the Series 2007 Bonds proposed to be changed to the Fixed Rate stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date and that such holder is required to tender such holder's Series 2007 Bonds proposed to be changed to the Fixed Rate for purchase on such proposed Mode Change Date. The failure to give any notice with respect to any Series 2007 Bond shall not affect the validity of the mandatory purchase of any other Series 2007 Bond with respect to which notice was so given. Any notice sent will be conclusively presumed to have been given, whether or not actually received by any holder.

Mandatory Purchase on Expiration Date, Substitute Liquidity Facility Date or Termination Date

On each Substitute Liquidity Facility Date applicable to a Series 2007 Bond, and on the second Business Day preceding each Expiration Date applicable to a Series 2007 Bond, if such Bond is an Eligible Bond it shall be subject to mandatory purchase on such date at the Purchase Price; provided, however, that such Series 2007 Bonds shall not be subject to mandatory purchase on the second Business Day preceding an Expiration Date if on or prior to the 15th day prior to such Expiration Date, the Corporation has furnished to the Trustee a written agreement with the Liquidity Facility Provider to extend the then current Liquidity Facility. The Tender Agent shall give notice of such mandatory purchase by mail to the holders of the Series 2007 Bonds involved no less than 10 days prior to such Mandatory Purchase Date. The notice shall state the Mandatory Purchase Date, the Purchase Price and that interest on such Series 2007 Bonds shall cease to accrue from and after the Mandatory Purchase Date. The failure to give such notice with respect to any Series 2007 Bond shall not affect the validity of the mandatory purchase of any other Series 2007 Bond with respect to which notice was so given. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any holder.

On the second Business Day preceding each Termination Date applicable to a Series 2007 Bond, if such Series 2007 Bond is an Eligible Bond it shall be subject to mandatory purchase on such date at the principal amount thereof, plus accrued interest, if any, with respect thereto to the Termination Date. The Tender Agent shall give notice of such mandatory purchase by mail to the holders of such Bonds no later than the Business Day after receipt of notice of termination from the Liquidity Facility Provider. The notice shall state the Mandatory Purchase Date, the Purchase Price and that interest on such Series 2007 Bonds shall cease to accrue from and after the Mandatory Purchase Date. The failure to give such notice

with respect to any Series 2007 Bond shall not affect the validity of the mandatory purchase of any other Series 2007 Bond with respect to which notice was so given. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any holder.

The Tender Agent may assume that a Series 2007 Bond is an Eligible Bond unless it has actual knowledge that such Series 2007 Bond is not an Eligible Bond.

General Provisions Relating to Tenders

Payment of Purchase Price. At or before 2:30 p.m. Eastern time on the Purchase Date or Mandatory Purchase Date and upon receipt by the Tender Agent of the aggregate Purchase Price of the tendered Bonds, the Tender Agent shall pay the Purchase Price of such Series 2007 Bonds to the holders by bank wire transfer in immediately available funds.

Inadequate Funds for Tenders. If the funds available for purchases of Eligible Bonds are inadequate for the purchase of all Series 2007 Bonds tendered on any Purchase Date or Mandatory Purchase Date, no purchase shall be consummated and the Tender Agent shall, (1) return all tendered Bonds to the holders thereof, (2) return all moneys deposited in the Remarketing Proceeds Account to the Remarketing Agent for return to the Persons providing such moneys and (3) return all moneys deposited by the Liquidity Facility Provider to the Liquidity Facility Provider. Failure of the Authority or the Corporation to pay the Purchase Price of Series 2007 Bonds shall not constitute an Event of Default under the Indenture, Loan Agreement or the Master Indenture, and the Bond Insurer shall not be obligated to pay any such amounts under the Policies.

Delivery of Bonds by Tendering Bondholders; Undelivered Bonds Deemed Purchased. All Series 2007 Bonds to be purchased on any date shall be required to be delivered to the principal office of the Tender Agent at or before 10:00 a.m. Eastern time on such Purchase Date or Mandatory Purchase Date. If the holder of any Series 2007 Bond (or portion thereof) that is subject to purchase fails to deliver such Bond to the Tender Agent for purchase on the Purchase Date or Mandatory Purchase Date, and if the Tender Agent is in receipt of the Purchase Price therefor, such Series 2007 Bond (or portion thereof) shall nevertheless be deemed tendered and purchased on the day fixed for purchase thereof and ownership of such Series 2007 Bond (or portion thereof) shall be transferred to the purchaser thereof as provided under "Delivery of Bonds to Purchasers" below. Any holder who fails to deliver such Series 2007 Bond for purchase shall have no further rights thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of said Series 2007 Bond to the Tender Agent. The Tender Agent shall, as to any tendered Series 2007 Bonds that have not been delivered to it: (1) promptly notify the Remarketing Agent of such nondelivery; and (2) instruct the Trustee to place a stop transfer against an appropriate amount of Series 2007 Bonds of the series and maturity involved registered in the name of such holder(s) on the Bond Register. The Trustee shall place such stop(s) commencing with the lowest serial number Series 2007 Bond registered in the name of such holder(s) until stop transfers have been placed against an appropriate amount of Series 2007 Bonds of the series and maturity involved until the appropriate tendered Series 2007 Bonds are delivered to the Tender Agent who shall deliver such Series 2007 Bonds to the Trustee. Upon such delivery, the Trustee shall make any necessary adjustments to the bond registration book.

Delivery of Bonds to Purchasers. As long as the Series 2007 Bonds are held under the book-entry system of DTC, all tenders and deliveries of Series 2007 Bonds will be accomplished under the procedures of DTC. Otherwise, on the Purchase Date or Mandatory Purchase Date, the Tender Agent shall direct the Trustee to execute and deliver all Series 2007 Bonds purchased on any Purchase Date or Mandatory Purchase Date as follows: (1) Series 2007 Bonds purchased and remarketed by the Remarketing Agent shall be registered and made available to the Remarketing Agent by 2:30 p.m. Eastern

time in accordance with the instructions of the Remarketing Agent; (2) Series 2007 Bonds purchased with amounts paid by or on behalf of the Liquidity Facility Provider shall be registered and made available in the name of or as directed in writing by the Liquidity Facility Provider by 2:30 p.m. Eastern time and become Liquidity Facility Bonds, provided that such Liquidity Facility Bonds cannot be released unless the Trustee has received notice that the Liquidity Facility has been reinstated; and (3) Bonds purchased with amounts paid by or on behalf of the Corporation shall be registered and made available in the name of or as directed in writing by the Corporation on or before 2:30 p.m. Eastern time. Notwithstanding the foregoing, the Tender Agent shall not deliver any such Series 2007 Bonds unless it has received written notice from the Liquidity Facility Provider that the amount available for the purchase of Series 2007 Bonds is at least equal to the aggregate amount of all Series 2007 Bonds then Outstanding (other than the Liquidity Facility Bonds or Series 2007 Bonds converted to an Indexed, Stepped Coupon, Auction, Term or Fixed Rate) plus an amount equal to the Required Stated Amount.

No Purchases or Sales in Certain Circumstances. If (i) payment of any installment of interest payable on any of the Series 2007 Bonds shall not be made when the same shall become due and payable or payment of the principal or the premium, if any, payable on any of the Series 2007 Bonds shall not be made when the same shall become due and payable, either at maturity, by proceedings for redemption, upon acceleration, through failure to make any payment to any fund and the Bond Insurer has not paid such amount or (ii) any conditions set forth in the Remarketing Agreement to the performance of the Remarketing Agent's obligation thereunder to remarket tendered Series 2007 Bonds shall not have been satisfied, then the Remarketing Agent shall not remarket any Series 2007 Bonds.

No Remarketing to the Authority. The Remarketing Agent shall not remarket any Bonds to the Authority, the Corporation, or any affiliate or guarantor of the Corporation, provided, however, that nothing herein shall prevent the Corporation or any affiliate of the Corporation that is then the Liquidity Facility Provider from purchasing and owning the Series 2007 Bonds as such Liquidity Facility Provider.

Redemption

Optional Redemption

Optional Redemption of Series 2007 Bonds in the Daily Mode or the Weekly Mode. Any Series 2007 Bonds in the Daily Mode or the Weekly Mode are subject to redemption prior to their Maturity Date, by the Authority at the direction of the Corporation, in whole or in part on any Business Day, at a Redemption Price equal to 100% of the principal amount of Series 2007 Bonds called for redemption, without premium, together with accrued interest, if any, from the end of the preceding Interest Period to the Redemption Date.

Optional Redemption of Series 2007 Bonds in the Auction Mode. Bonds in the Auction Mode are subject to redemption prior to their Maturity Date by the Authority at the direction of the Corporation, in whole or in part on any Interest Payment Date, at a Redemption Price equal to the principal amount of the Series 2007 Bonds called for redemption, without premium, together with accrued interest, if any, to the Redemption Date.

Extraordinary Redemption

The Series 2007 Bonds are subject to redemption prior to their respective stated Maturity Dates as a whole on any date designated by the Corporation and in part by lot on any Interest Payment Date at the option of the Authority (which shall be exercised as directed by the Corporation) from moneys required to be applied to the repayment under the Loan Agreement and as set forth in the Indenture.

Mandatory Sinking Fund Redemption

The following requirements of mandatory Sinking Fund redemption are subject to the provision that any partial redemption of the Series 2007 Bonds as described under the caption "Optional Redemption of Series 2007 Bonds in the Weekly Mode" above shall reduce the mandatory scheduled redemption requirements as provided in the Indenture.

The Series 2007A Bonds are subject to mandatory Bond Sinking Fund redemption prior to maturity, and payable at maturity, in the following amounts on the following dates, at the principal amount specified below plus accrued interest to the date fixed for redemption, without premium:

Bond Sinking Fund Redemption Date (September 1)	Amount	Bond Sinking Fund Redemption Date (September 1)	Amount
2009	$545,000	2024	$ 975,000
2010	565,000	2025	1,015,000
2011	590,000	2026	1,055,000
2012	610,000	2027	1,095,000
2013	635,000	2028	1,140,000
2014	660,000	2029	1,185,000
2015	685,000	2030	1,235,000
2016	715,000	2031	1,285,000
2017	745,000	2032	1,335,000
2018	770,000	2033	1,385,000
2019	805,000	2034	1,440,000
2020	835,000	2035	1,500,000
2021	870,000	2036	1,560,000
2022	905,000	2037*	1,620,000
2023	940,000		

*Maturity

The Series 2007B Bonds are subject to mandatory Bond Sinking Fund redemption prior to maturity, and payable at maturity, in the following amounts on the following dates, at the principal amount specified below plus accrued interest to the date fixed for redemption, without premium:

Bond Sinking Fund Redemption Date (September 1)	Amount	Bond Sinking Fund Redemption Date (September 1)	Amount
2009	$320,000	2024	$575,000
2010	335,000	2025	600,000
2011	345,000	2026	625,000
2012	360,000	2027	650,000
2013	375,000	2028	675,000
2014	390,000	2029	700,000
2015	405,000	2030	730,000
2016	420,000	2031	755,000
2017	440,000	2032	790,000
2018	455,000	2033	820,000
2019	475,000	2034	850,000
2020	495,000	2035	885,000
2021	510,000	2036	920,000
2022	535,000	2037*	955,000
2023	555,000		

*Maturity

Minimum Redemption Amount

No redemption (other than an optional redemption of Liquidity Facility Bonds) of less than all of the Series 2007 Bonds at the time outstanding will be made unless the Series 2007 Bonds are redeemed in Authorized Denominations.

Purchase in Lieu of Redemption

In lieu of redeeming Series 2007 Bonds, the Trustee may, at the request of the Corporation and upon the prior written consent of the Bond Insurer, use such funds otherwise available under the Indenture for redemption of Series 2007 Bonds to purchase Series 2007 Bonds identified by the Corporation in the open market for cancellation at a price specified by the Corporation not exceeding the then applicable Redemption Price. In the case of any optional or extraordinary optional redemption or any purchase and cancellation of term Series 2007 Bonds, the Trustee shall apply as a credit against the required Bond Sinking Fund deposits with respect to such term Series 2007 Bonds the amount of such term Series 2007 Bonds in such order as the Corporation elects in writing prior to such optional or extraordinary optional redemption or purchase and cancellation or, if no election is made, in the inverse order thereof. The Trustee is required to cancel all such Series 2007 Bonds purchased pursuant to the Indenture.

Optional Purchase of the Series 2007 Bonds

The Authority and, by their acceptance of the Series 2007 Bonds, the holders, irrevocably grant to the Corporation and any assigns of the Corporation with respect to this right, the option to purchase, at any time and from time to time, any Series 2007 Bond which is redeemable pursuant to the Indenture as described above under the caption "THE SERIES 2007 BONDS – Redemption – Optional Redemption"

at a purchase price equal to the Redemption Price therefor. To exercise such option, the Corporation shall give the Trustee a Written Request exercising such option within the time period specified in the Indenture as though such Written Request were a written request of the Authority for redemption, and the Trustee will thereupon give the holders of the Series 2007 Bonds to be purchased notice of such purchase in the manner specified below as though such purchase were a redemption and the purchase of such Series 2007 Bonds shall be mandatory and enforceable against the holders. On the date fixed for purchase pursuant to any exercise of such option, the Corporation will pay the purchase price of the Series 2007 Bonds then being purchased to the Trustee in immediately available funds, and the Trustee will pay the same to the sellers of such Series 2007 Bonds against delivery thereof. Following such purchase, the Trustee shall cause such Series 2007 Bonds to be registered in the name of the Corporation or its nominee and shall deliver them to the Corporation or its nominee. No purchase of the Series 2007 Bonds pursuant to these provisions shall operate to extinguish the indebtedness of the Authority evidenced thereby. Notwithstanding the foregoing, no purchase shall be made pursuant to this paragraph unless the Corporation (i) shall purchase the Series 2007 Bonds with Eligible Moneys, if such Series 2007 Bonds are in the Daily or Weekly Mode, and (ii) shall have delivered to the Trustee and the Authority concurrently therewith (y) a Favorable Opinion of Bond Counsel with respect to such purchase, and (z) the prior written consent of the Bond Insurer.

Notice of Redemption

For a description of the giving of notices while the Series 2007 Bonds are in the book-entry only system, see APPENDIX G – "Book-Entry Only System." Notice of a call for any redemption shall be given by mailing a copy of such notice of redemption by first class mail, postage prepaid not less than 15 or more than 60 days prior to the Redemption Date to the registered owners of the Series 2007 Bonds to be redeemed to the address shown on the Bond Register to the Authority, the Liquidity Facility Provider, the Bond Insurer, the Auction Agent (if any) and the Ratings Agencies then rating the Series 2007 Bonds, provided, however, that failure to give such notice by mailing or to provide such notice to any registered securities depository or a defect in the notice or the mailing as to any Series 2007 Bond will not affect the validity of any proceedings for redemption as to any other Series 2007 Bond with respect to which notice was properly given to the holder thereof. Except for a mandatory Bond Sinking Fund redemption as described above, prior to the date that the redemption notice is first mailed as aforesaid, (a) funds shall be placed with the Trustee to pay the principal of such Series 2007 Bonds (which funds shall be Eligible Moneys if such Series 2007 Bonds bear interest at the Daily Rate or the Weekly Rate), the accrued and unpaid interest thereon to the Redemption Date and the premium, if any, thereon, or (b) such notice of redemption shall state that any redemption is conditional on such funds being deposited with the Trustee on the Redemption Date and that failure to make such a deposit shall not constitute an event of default under the Indenture.

If such conditions are not satisfied or such funds are not so deposited by such date, such Series 2007 Bonds shall not be subject to redemption and the holders thereof shall have the same rights as if no such notice had been given. In such event, the Trustee shall promptly give notice thereof to the owners of such Series 2007 Bonds by first class mail, postage prepaid.

Registration, Transfer and Exchange

For a description of the procedure to transfer ownership of a Series 2007 Bond while in the book-entry only system, see APPENDIX G – "Book-Entry Only System." Subject to the limitations described below, the Series 2007 Bonds, if not then in book-entry only registration, are transferable upon surrender thereof at the Principal Office of the Trustee, duly endorsed by, or if accompanied by a written instrument or instruments of transfer in form and with guarantee of signature satisfactory to the Trustee, and duly executed by the registered owner or such owner's attorney duly authorized in writing. Subject to the

limitations described below, any Series 2007 Bond may be exchanged at such times at such Principal Office of the Trustee if accompanied by a written instrument or authorization for exchange in form and with guarantee of signature satisfactory to the Trustee, and duly executed by the registered owner or such owner's attorney duly authorized in writing. No service charge shall be imposed for any exchange or transfer of Series 2007 Bonds. The Authority and the Trustee may, however, require payment by the person requesting an exchange or transfer of Series 2007 Bonds of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto, except in the case of the issuance of a Series 2007 Bond or Bonds for the unredeemed portion of a Series 2007 Bond surrendered for redemption in part.

The Authority, the Trustee and any Paying Agent shall not be obligated to transfer or exchange any Series 2007 Bond of a series after notice calling such Bond or portion thereof for redemption has been given as provided in the Indenture, or during the period of 15 days next preceding the mailing of notice of redemption of such Series 2007 Bonds of the same series and maturity.

SECURITY FOR THE SERIES 2007 BONDS

General

The Series 2007 Bonds are special limited obligations of the Authority and are payable solely from (i) payments made under the Loan Agreement (except for Unassigned Rights, as defined in the Indenture), (ii) certain funds held by the Trustee under the Indenture, (iii) under certain circumstances, certain proceeds of insurance, condemnation awards or sales consummated under threat of condemnation, (iv) income from investment of any of the foregoing, (v) the Deed of Trust; and (vi) any other sources provided to the Trustee by the Corporation, as described in the Indenture.

The Series 2007 Bonds will be issued under and be secured by the Indenture, and the Authority will loan the proceeds from the sale of the Series 2007 Bonds to the Corporation pursuant to the Loan Agreement. In the Loan Agreement, the Corporation agrees to make the Loan Payments to the Trustee, which payments, in the aggregate, will be in an amount sufficient for the payment in full of all amounts payable with respect to the Series 2007 Bonds, including the total interest payable on the Series 2007 Bonds to the stated maturity of the Series 2007 Bonds or earlier redemption, the principal amount of the Series 2007 Bonds, any redemption premiums, and certain other fees and expenses (the "Additional Payments") less any amounts available for such payment as provided in the Indenture. The obligation of the Corporation to make payments required under the Loan Agreement will be secured by (i) a security interest in the Gross Revenues of the Corporation and (ii) a Deed of Trust, in each case subject to Permitted Encumbrances, as discussed further below.

Gross Revenues

Pursuant to the Loan Agreement, the Corporation agrees that, as long as any of the Series 2007 Bonds remain Outstanding or any Loan Payments remain unpaid, or any amounts remain unpaid under any Parity Debt, 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, subject to the provisions of the Loan Agreement described in the following paragraph, in an account or accounts at such banking institution or institutions in the State of California as the Corporation shall from time to time designate, in writing to the Trustee 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 in the Loan Agreement, the Corporation pledges, and to the extent permitted by law grants a security interest to the Trustee, as assignee of the Authority (for the benefit of the Owners, and the owners of any Parity Debt, as and to the extent provided in the Loan

Agreement) in, the Gross Revenue Fund and all of the Gross Revenues (collectively, the "Collateral") to secure the payment of the Loan Payments and the performance by the Corporation of its other obligations under the Loan Agreement, the Liquidity Facility and the other Corporation Agreements and the payment and performance of all obligations of the Corporation under any agreement securing 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 five Business Days in the payment or required prepayment of any Loan Payment or there is a delinquency regarding any, Additional Payment or any payment with respect to the Liquidity Facility or any Parity Debt known to the Trustee, the Trustee shall notify the Corporation, the Bond Insurer, the Liquidity Facility Provider and the depository bank(s) of such delinquency, and, unless such Loan Payment or payment with respect to the Parity Debt is paid within ten days after receipt of such notice, the Trustee shall exercise exclusive control over the Gross Revenue Fund to the name and credit of the Trustee, as assignee of the Authority, the Gross Revenue Fund as provided in the control agreement, but only with the consent of the Bond Insurer (provided that such consent shall be required only if the Policies are in effect and the Bond Insurer is not in default thereunder), until the amounts on deposit in said fund are sufficient to pay in full (or have been used to pay in full) all Loan Payments in default and payments required with respect to the Liquidity Facility or any Parity Debt in default and until all other Loan Agreement defaults and events of default with respect to the Liquidity Facility or any 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.

During any period that the Gross Revenue Fund is held subject to the exclusive control of the Trustee, the Trustee shall use and withdraw from time to time amounts in such fund, to make Loan Payments and the other payments required of the Corporation under this Loan Agreement or with respect to any Parity Debt as such payments become due (whether by maturity, prepayment, 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 Payments and debt service on such Parity Debt, ratably, according to the amounts due respectively for Loan Payments 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 Owners, and the owners of such Parity Debt, without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Trustee, the Corporation shall not be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Trustee 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.

The foregoing pledge of Gross Revenues will be perfected to the extent that such security interest can be perfected by filing or notice under the Uniform Commercial Code of the State of California and may, in several instances, 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 or insolvency laws that may affect the enforceability of the Loan Agreement or pledge of Gross Revenues and (vi) rights of third parties in Gross Revenues converted to cash and not in the possession of the Trustee or the Depository Bank(s). In addition, enforceable security interests in certain types of Gross Revenues (e.g., restricted donations, certain insurance proceeds, payments from Medicare, and other revenues derived from governmental programs) prior to actual receipt by the Corporation for deposit in the Gross Revenue Fund can be difficult to obtain.

Deed of Trust

The Corporation will execute the Deed of Trust pursuant to which the Corporation will grant to the trustee thereunder, for the benefit of the Trustee, as trustee for the Holders of the Series 2007 Bonds and the holders of Parity Debt, a first lien on and security interest in the Facilities, subject to Permitted Encumbrances, as a security for the performance of the Corporation's obligations under the Loan Agreement, and with respect to Parity Debt. An ALTA title insurance policy on the Facilities in an amount not less than the principal amount of the Series 2007 Bonds will be delivered at the time of issuance of the Series 2007 Bonds. See "BONDHOLDERS' RISKS."

Debt Service Reserve Fund

Pursuant to the Indenture, a Debt Service Reserve Fund will be established and held by the Trustee for the benefit of the Series 2007 Bonds. At the time of issuance of the Series 2007 Bonds, the Debt Service Reserve Fund Requirement will be $2,667,597.04.

Under the Indenture, as long as the Policies are in effect and the Bond Insurer has not lost its consent rights, the Bond Insurer may, in its sole discretion, direct the Trustee, as the holder of the Series 2007 Bonds, to consent to amendments to the Indenture, without notice to or consent of the holders of the Series 2007 Bonds. Such amendments could include the deletion of the requirement for a Debt Service Reserve Fund with respect to the Series 2007 Bonds and the release of any monies, surety bond or letter of credit held therein.

Monies on deposit in the Debt Service Reserve Fund will be used by the Trustee whenever, and to the extent that, monies on deposit in the Interest Fund and the Bond Sinking Fund (in that order) are insufficient for the purpose of paying interest on or principal of the Series 2007 Bonds as the same becomes due (either on stated payment dates or on mandatory sinking fund redemption dates). Any draw on the Debt Service Reserve Fund will serve as a credit against the Corporation's required payments under the Loan Agreement. Therefor, a failure of the Corporation to make a debt service payment will not constitute an event of default under the Indenture or the Loan Agreement to the extent monies are available therefor in the Debt Service Reserve Fund.

Qualified Investments deposited in the Debt Service Reserve Fund shall have maturities not longer than ten (10) years and shall have an average life which is no longer than five (5) years. All Investment Securities in the Debt Service Reserve Fund shall be valued at the market value at least quarterly on or before March 1, June 1, September 1 and December 1 (or more frequently as may be reasonably requested by the Corporation) and such valuation shall be reported within thirty (30) days to the Corporation. If at any time the amount on deposit in the Debt Service Reserve Fund is less than 100% of the Debt Service Reserve Fund Requirement as a result of the Debt Service Reserve Fund having been drawn upon, the Indenture requires the Corporation to restore the amount on deposit in the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Fund Requirement by the deposit with the Trustee of an amount equal to such deficiency in not more than twelve (12) substantially equal monthly installments beginning with the first day of the month after the month in which such draw occurred. For more information concerning the Debt Service Reserve Fund, see "Summary of Principal Documents – Summary of Certain Provisions of the Indenture – Funds – Debt Service Reserve Fund" in APPENDIX C.

In lieu of depositing and maintaining monies in the Debt Service Reserve Fund, the Corporation may, with the prior written consent of the Bond Insurer, deliver to the Trustee for deposit in the Debt Service Reserve Fund an irrevocable letter of credit or a surety bond complying with the requirements of the Indenture. See "Summary of Principal Documents — Summary of Certain Provisions of the Indenture — Funds — Debt Service Reserve Fund" in APPENDIX C.

Bond Insurance

Payment of principal of and interest on the Series 2007 Bonds will be insured in accordance with the terms of the Policies to be issued by the Bond Insurer simultaneously with the delivery of the Series 2007 Bonds. For further information, see the information under the captions "FINANCIAL GUARANTY INSURANCE" and "BONDHOLDERS' RISKS – Bond Insurance" and in APPENDIX E – "Specimen Financial Guaranty Insurance Policy." The Policies do not guarantee the payment of purchase price in respect of the Series 2007 Bonds tendered by the owners thereof.

Initial Liquidity Facility

Payment of the Purchase Price of the Series 2007 Bonds bearing interest at a Daily Rate or a Weekly Rate that are subject to optional or mandatory tender for purchase is payable initially from amounts available pursuant to the Initial Liquidity Facility. The Initial Liquidity Facility will expire on May 2, 2012, but may be terminated prior to that date, extended or replaced. In addition, the obligation of the Initial Liquidity Facility Provider to purchase Series 2007 Bonds under the Initial Liquidity Facility is subject to certain conditions and in certain circumstances such obligation may be terminated without notice. For further information, see the information under the caption "LIQUIDITY FACILITY."

Existing and Additional Indebtedness

In addition to its obligations with respect to the Series 2007 Bonds, the Corporation may incur other indebtedness that may be secured by a security interest in Gross Revenues and the lien of the Deed of Trust on a parity with the Corporation's obligation to make Loan Repayments under the Loan Agreement, if issued for the purposes and subject to the conditions provided in the Loan Agreement. The Corporation may issue additional Indebtedness that will be equally and ratably secured with the Series 2007 Bonds. See "Summary of Principal Documents – Summary of Certain Provisions of the Loan Agreement – Limitations on Additional Indebtedness" in APPENDIX C. Both the Corporation's obligations under the Liquidity Facility and the Corporation's obligations to make regularly-scheduled payments (but not termination payments) under the Swap Agreements constitute Parity Debt.

In addition, Additional Bonds may be issued under the Indenture in the future without solely meeting the conditions contained in the Loan Agreement if such Additional Bonds are used solely to refund the Series 2007B Bonds. See "Summary of Principal Documents – Summary of Certain Provisions of the Indenture – Additional Bonds" in APPENDIX C. It is expected that the Series 2008A Bonds will be issued in 2008 as Additional Bonds for such purpose without meeting the conditions contained in the Loan Agreement.

Upon the issuance of the Series 2007 Bonds, the Corporation's obligations with respect to the Series 2007 Bonds and certain capital leases will constitute the only outstanding Indebtedness of the Corporation.

Swap Transaction

The Corporation has entered into four interest rate exchange agreements in connection with the Series 2007 Bonds. See "PLAN OF FINANCE – Interest Rate Swap Transaction."

Limited Obligation of the Authority

THE SERIES 2007 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED

THEREFOR PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, 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 SERIES 2007 BONDS. THE SERIES 2007 BONDS AND THE OBLIGATION TO PAY PRINCIPAL AND PURCHASE PRICE THEREOF 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 SERIES 2007 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 OR PURCHASE PRICE OF, OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2007 BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

FINANCIAL GUARANTY INSURANCE

The following information has been furnished by the Bond Insurer for use in this Official Statement. Reference is made to APPENDIX E for a specimen of the Policies. No representation is made by the Authority, the Corporation or the Underwriter as to (1) the accuracy or adequacy of the information about the Bond Insurer that is included herein directly or by reference or (2) the absence of material adverse changes affecting the Bond Insurer since the date of such information.

Description of the Financial Guaranty Insurance Policy

A Policy will be issued by the Bond Insurer simultaneously with the issuance and delivery of each Series of the Series 2007 Bonds. Each Policy is noncancelable during its term and provides for the prompt payment of principal of and interest on the Series 2007 Bonds to the extent that the Trustee has not received sufficient funds from the Authority for payment of the Series 2007 Bonds on the "due date." The Bond Insurer is obligated to make the required payment on the later of the due date or the first business day after which the Bond Insurer has received notice from The Bank of New York, as Insurance Trustee (the "Insurance Trustee"), that the Authority has failed to pay amounts due on the Series 2007 Bonds. Under the Policy, the "due date" of the Series 2007 Bonds, 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 Bond Insurer. With respect to interest on the Series 2007 Bonds, 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.

Upon the occurrence and continuance of an Event of Default, the Bond Insurer, may, in its discretion, direct the acceleration of the Series 2007 Bonds at a price equal to the principal amount thereof plus accrued interest, or the Bond Insurer may elect to continue to pay principal and interest on the originally scheduled due dates of the Series 2007 Bonds. For specific information on the coverage provided, reference should be made to the Policy that has been reproduced in specimen form in APPENDIX E hereto. The Policy does not insure against nonpayment of principal or interest on the

Series 2007 Bonds due to the insolvency, misconduct or negligence of the Trustee. The Policy does not insure the payment of any redemption premium.

Radian Asset Assurance Inc.

The Bond Insurer is a monoline financial guaranty insurance company, regulated by the Insurance Department of the State of New York and licensed to do business in all 50 states, the District of Columbia, Guam and the United States Virgin Islands. As of December 31, 2006, the Bond Insurer had total consolidated shareholders' equity of approximately $1,606,276,000 and total consolidated assets of approximately $2,624,177,000.

The financial information relating to the Bond Insurer presented in this Official Statement was prepared internally by the Bond Insurer, based on accounting principles generally accepted in the United States of America ("GAAP"), and has not been audited by independent auditors. The address of the Bond Insurer's administrative office is 335 Madison Avenue, New York, New York 10017, and its telephone number is 212-983-5859.

On March 2, 2006, the Bond Insurer entered into a settlement agreement with respect to two financial guaranty contracts insured by the Bond Insurer on a direct basis. Under this agreement, the Bond Insurer paid $68.0 million to its counterparty in consideration for its counterparty's terminating one of these transactions, a synthetic collateralized debt obligation representing $247.5 million in exposure, and amending the other transaction to add certain structural changes that the Bond Insurer believes will improve its overall risk profile. Additional information regarding this settlement may be found in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Financial Guaranty—Year Ended December 31, 2005 Compared to Year Ended December 31, 2004—Provision for Losses" in Item 7 of Part II of the Annual Report on Form 10-K filed by the Bond Insurer's ultimate corporate parent, Radian Group Inc. ("Radian") with the Securities and Exchange Commission.

The Bond Insurer has filed the information contained in (i) – (v) below with entities designated as Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") pursuant to Rule 15c2-12 of the Securities Exchange Act of 1934, and such financial information is available through such NRMSIRs:

(i) The Bond Insurer's audited consolidated financial statements as of December 31, 2005 and 2004, and for each of the three years in the period ended December 31, 2005, prepared in accordance with GAAP, together with the accompanying report of the Bond Insurer's independent registered public accounting firm, which expresses an unqualified opinion (the "Radian Financial Statements").

(ii) The Bond Insurer's quarterly unaudited consolidated balance sheet as of March 31, 2006 and unaudited consolidated statement of operations for the three-month period then ended, prepared in accordance with GAAP.

(iii) The Bond Insurer's quarterly unaudited consolidated balance sheet as of June 30, 2006 and unaudited consolidated statement of operations for the six-month period then ended, prepared in accordance with GAAP.

(iv) The Bond Insurer's quarterly unaudited consolidated balance sheet as of September 30, 2006 and unaudited consolidated statement of operations for the nine-month period then ended, prepared in accordance with GAAP.

(v) The Bond Insurer's unaudited consolidated balance sheet as of December 31, 2006 and unaudited consolidated statement of operations for the twelve-month period then ended, prepared in accordance with GAAP.

Additional information regarding the Bond Insurer can be found in the following documents filed by Radian with the Securities and Exchange Commission: (a) Annual Report on Form 10-K for the year ended December 31, 2006, under the headings: (i) "Forward Looking Statements - Safe Harbor Statement" (but only insofar as it relates to the financial guaranty business or financial guaranty insurance); (ii) Item 1. Business "I. General" (but only insofar as it relates to the financial guaranty business or financial guaranty insurance), "Financial Guaranty Business (General)," including subsections 1-4 thereunder, "II. Risk in Force/Net Par Outstanding – B. Financial Guaranty (Risk in Force/Net Par Outstanding)," "III. Defaults and Claims – B. Financial Guaranty (Defaults and Claims)," "IV. Loss Management — B. Financial Guaranty (Loss Management)," "V. Risk Management – B. Financial Guaranty (Risk Management)," including subsections 1 and 2 thereunder, "VI. Customers – B. Financial Guaranty (Customers)," "VII. Sales and Marketing – Financial Guaranty (Sales and Marketing)," "VIII. Competition – Financial Guaranty(Competition)," "IX. Ratings" (but only insofar as it relates to the Bond Insurer), and "XI Regulation" Parts A 2-6, C and D(but in each case only insofar as it relates to the Bond Insurer or the financial guaranty business); (iii) "Item 1A – Risk Factors" "– Risks Affecting Our Company" (but only insofar as it relates to the Bond Insurer, the financial guaranty business or the proposed merger between Radian and MGIC (as defined below)) and "– Risks Particular to our Financial Guaranty Business"; (iv) "Item 6 – "Selected Ratios - Financial Guaranty" and "Other Data - Financial Guaranty," and (v) Item 7 Managements' Discussion and Analysis of Financial Condition and Results of Operations "Business Summary – Financial Guaranty," "Overview of Business Results" (but only insofar as it relates to the Bond Insurer), "Results of Operations - Financial Guaranty" and "Liquidity and Capital Resources" (but only to the extent it relates to the Bond Insurer), and "Critical Accounting Policies" (but only to the extent it relates to the Bond Insurer, the financial guaranty business or "Financial Guaranty"); and (b) the Reports on Form 8-K dated January 24, 2007, February 6, 2007, February 9, 2007 and February 12, 2007.

A complete copy of the Radian Financial Statements is available from the Bond Insurer upon written request. Prior year amounts included in the Radian Financial Statements have been restated to reflect the combined balances and results of operations of the Bond Insurer and Radian Reinsurance Inc.

The Bond Insurer is an indirect, wholly owned subsidiary of Radian, a publicly owned corporation with its shares listed on the New York Stock Exchange (symbol "RDN"). Radian is a global credit risk management company headquartered in Philadelphia with significant operations in both New York and London. Radian develops innovative financial solutions by applying its core mortgage credit risk expertise and structured finance capabilities to the credit enhancement needs of the capital markets worldwide, primarily through credit insurance products. The company also provides credit enhancement for public finance and other corporate and consumer assets on both a direct and reinsurance basis and holds strategic interests in credit-based consumer asset businesses. None of Radian, Radian's other subsidiaries or any of Radian's investors is obligated to pay the debts of or claims against the Bond Insurer.

On June 29, 2006, Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") affirmed the Bond Insurer's "AA" financial strength rating and revised upward its outlook on the Bond Insurer from "negative" to "stable." The Bond Insurer also has an insurance financial strength rating of "Aa3" (outlook: stable) from Moody's Investors Service, Inc. ("Moody's") and a claims paying ability rating of "AA" (outlook: negative) from Fitch Ratings Services ("Fitch"). The ratings of S&P, Moody's and Fitch reflect only the views of the applicable rating agency, respectively, do not constitute a recommendation to buy, sell or hold securities and are subject to revision or withdrawal at

any time by such rating agencies. Any further explanation of any rating may be obtained only from the applicable rating agency. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 2007 Bonds. The Bond Insurer does not guarantee the market price or investment value of the Series 2007 Bonds nor does it guarantee that the ratings on the Series 2007 Bonds will not be revised or withdrawn.

The Bond Insurer is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York, its state of domicile. In addition, Radian and its insurance subsidiaries are subject to regulation by insurance laws of the various other jurisdictions in which they are licensed to do business. As a financial guaranty insurance corporation licensed to do business in the State of New York, the Bond Insurer is subject to Article 69 of the New York Insurance Law which, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance and related business lines, requires that each financial guaranty insurer maintain a minimum surplus to policyholders, establishes contingency, loss and unearned premium reserve requirements for each financial guaranty insurer, and limits the size of individual transactions and the volume of transactions that may be underwritten by each financial guaranty insurer. Other provisions of the New York Insurance Law, applicable to non-life insurance companies such as the Bond Insurer regulate, among other things, permitted investments, payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liability for borrowings.

Neither the Bond Insurer nor any of its affiliates accepts any responsibility for the accuracy or completeness of, nor have they participated in the preparation of, this Official Statement or any information or disclosure that is provided to potential purchasers of the Series 2007 Bonds, or omitted from such disclosure, other than with respect to the accuracy of information presented under the heading "FINANCIAL GUARANTY INSURANCE" and as set forth in APPENDIX E of this Official Statement. The Bond Insurer's role is limited to providing the coverage set forth in the Policy. In addition, the Bond Insurer makes no representation regarding the Series 2007 Bonds or the advisability of purchasing the Series 2007 Bonds.

On February 6, 2007, Radian and MGIC Investment Corporation (NYSE: MTG) ("MGIC") announced that they have agreed to merge, forming a new company to be called MGIC Radian Financial Group. Additional information regarding this merger may be found in a Current Report on Form 8-K of Radian filed on February 6, 2007 and the attachments thereto. The merger has been approved by each company's board of directors and is expected to be completed in the fourth quarter of 2007, subject to regulatory and shareholder approvals.

Upon completion of the merger, certain of our reinsurance customers will have the right to recapture reinsurance business previously assumed by the Bond Insurer. At December 31, 2006, the Bond Insurer has assumed an aggregate of approximately $10.0 billion par in force and approximately $70.3 million of unearned premium reserves from these customers. If all these customers were to recapture all of their reinsurance business assumed by the Bond Insurer, based on December 31, 2006 figures, the Bond Insurer would experience an estimated reduction of $87.9 million of written premiums, as well as immediate reductions of $17.6 million of earned premiums, $12.1 million in acquisition costs, and $6.0 million in incurred losses, which would result in a pretax gain of approximately $0.5 million. If all this reinsurance business were recaptured, the Bond Insurer estimates it would have to disburse $55 million in cash to settle the recaptures. A small portion of this reinsurance business from these customers is not subject to recapture. The Bond Insurer cannot provide any assurances as to whether the merger shall be consummated, and if so whether any or which of these customers will recapture all or any portion of this business upon consummation of the merger described above or the exact impact of the actual recapture, if any.

LIQUIDITY FACILITY

General

Pursuant to the Loan Agreement, the Corporation covenants and agrees that at all times while any Series 2007 Bonds bear interest at the Daily or the Weekly Rate, it will maintain a Liquidity Facility for such Series 2007 Bonds in full force and effect. The Liquidity Facility will be in an amount at least equal to the aggregate principal amount of the Series 2007 Bonds then Outstanding, together with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Rate) for the period specified in a certificate of the Corporation to be the minimum period specified by the Rating Agencies then rating the Series 2007 Bonds as necessary to maintain the short-term rating of the Series 2007 Bonds with a term of at least 360 days from the effective date thereof. The Series 2007 Bonds will be supported initially by a Standby Bond Purchase Agreement provided by the Initial Liquidity Facility Provider.

The Initial Liquidity Facility

The Standby Bond Purchase Agreement dated as of May 1, 2007 among the Corporation, the Tender Agent and the Initial Liquidity Facility Provider (the "Initial Liquidity Facility") provides liquidity support for the Series 2007 Bonds in the Weekly Mode. If the Initial Liquidity Facility consents thereto in writing, the Initial Liquidity Facility will also provide liquidity support for Series 2007 Bonds in the Daily Mode.

Subject to the terms of the Initial Liquidity Facility, upon issuance of Additional Bonds in the Weekly Mode under the Indenture in 2008 designated "Series 2008A" (the "Series 2008A Bonds"), application of the proceeds thereof to provide for the payment in full of the Series 2007B Bonds, and confirmation by the Initial Liquidity Facility Provider that the Initial Liquidity Facility is effective with respect to the Series 2008A Bonds, the Initial Liquidity Facility will provide liquidity support for the Series 2008A Bonds and cease providing liquid support for the Series 2007B Bonds. As used in this summary of the Initial Liquidity Facility, the term "Bonds" means the Series 2007A Bonds and the Series 2007B Bonds until the Series 2007B Bonds are refunded with the proceeds of the Series 2008A Bonds and the Initial Liquidity Facility becomes effective with respect to the Series 2008A Bonds, and thereafter, "Bonds" shall mean the Series 2007A Bonds and the 2008A Bonds.

The following summary of certain provisions of the Initial Liquidity Facility does not purport to be comprehensive or definitive and is subject to all of the terms and provisions of the Initial Liquidity Facility to which reference is made hereby. Investors are urged to obtain and review a copy of the Initial Liquidity Facility in order to understand all of the terms of that document. A copy of the Initial Liquidity Facility may be obtained at the designated corporate trust office of the Trustee. See "LIQUIDITY FACILITY – The Initial Liquidity Facility Provider" below for certain information regarding the Initial Liquidity Facility Provider.

General. On the date of issuance of the Series 2007 Bonds, the Corporation will enter into the Initial Liquidity Facility with the Initial Liquidity Facility Provider and the Tender Agent. Subject to compliance with the provisions of the Initial Liquidity Facility, the Initial Liquidity Facility Provider is obligated, under certain conditions and assuming timely and proper notice is given to the Initial Liquidity Facility Provider, to provide funds for the purchase of any Eligible Bonds that are tendered or deemed tendered for purchase pursuant to the Indenture, whether at the option of the holder or upon mandatory tender for purchase, and that are not remarketed ("Tendered Bonds"). Under the Initial Liquidity Facility, the Initial Liquidity Facility Provider is obligated to make available to the Tender Agent the tender purchase price thereof in an amount equal to the principal amount of the Tendered Bonds plus up to 34

days accrued interest at an interest rate of up to 12% per annum (the "Tender Price"). The Initial Liquidity Facility covers only the tender of Bonds in the Weekly Mode.

The Initial Liquidity Facility secures only the payment of the Tender Price of Bonds tendered for purchase as described above, and does not otherwise secure or provide payment for the principal of, premium, if any, or interest on the Bonds.

Under certain circumstances described below, the obligations of the Initial Liquidity Facility Provider to purchase Tendered Bonds may be terminated or suspended. In such event, sufficient funds may not be available to purchase Tendered Bonds.

The initial Expiration Date of the Initial Liquidity Facility is May 2, 2012. The Expiration Date of the Initial Liquidity Facility may be extended as described below under "– Extension of Initial Liquidity Facility." The Initial Liquidity Facility Provider's obligation to make payments under the Initial Liquidity Facility may be terminated as set forth below under "– Events of Default" and " - Remedies Upon Occurrence of an Event of Default."

Various words or terms used in the following summary are defined in this Official Statement, the Initial Liquidity Facility or the Indenture, and reference thereto is made for full understanding of their import.

Commitment to Purchase Bonds. The Initial Liquidity Facility Provider agrees, on the terms and conditions contained in the Initial Liquidity Facility, to extend credit to the Corporation for the purchase of Tendered Bonds, for the Initial Liquidity Facility Provider's own account, from time to time during the Purchase Period. The initial Available Commitment to purchase Tendered Bonds under the Initial Liquidity Facility is $47,155,224, consisting of an Available Principal Commitment of $45,645,000 and an Available Interest Commitment of $510,224 (calculated at 12% for 34 days based on a year of 365 days).

Covenants. The Corporation makes certain representations, warranties and covenants under the Initial Liquidity Facility relating to various matters, including, without limitation, existence, compliance with laws, maintenance of governmental authorizations and third party payor programs, preservation of property, incurrence of debt, tax-exempt status, reporting requirements, payment of obligations, liens, performance of Related Documents, insurance, ERISA and financial covenants. The covenants and agreements of the Corporation contained in the Initial Liquidity Facility run only in favor of the Initial Liquidity Facility Provider and may be waived at any time in the sole discretion of the Initial Liquidity Facility Provider or amended at any time upon the agreement of the Corporation and the Initial Liquidity Facility Provider and, in certain circumstances, the Tender Agent. Holders of the Bonds are not entitled to and should not rely upon any of the covenants and agreements of the Corporation in the Initial Liquidity Facility.

Events of Default. Each of the following events shall constitute an "Event of Default" under the Initial Liquidity Facility:

1. Events of Default Not Permitting Immediate Termination.

(a) The Corporation shall fail to pay when due any Facility Fee or other amount owed by the Corporation to the Initial Liquidity Facility Provider pursuant to the Initial Liquidity Facility and such failure is not cured within three (3) Business Days after the Corporation and the Bond Insurer have been given written notice of such failure; or

(b) Any representation or warranty made by the Corporation in the Initial Liquidity Facility or in any Related Document or in any certificate or statement delivered thereunder shall prove to have been incorrect or untrue in any material respect when made or deemed to have been made; or

(c) The Corporation shall fail to perform certain covenants in the Initial Liquidity Facility with the respect to: (i) the use of the proceeds of the Bonds; (ii) the use of the Purchase Price paid by the Initial Liquidity Facility Provider for Tendered Bonds; (iii) the amendment of certain documents, including the Related Documents; (iv) the preservation of its corporate existence, ownership of assets and preservation of its property; (v) the inclusion of information regarding the Initial Liquidity Facility Provider in an official statement or other offering document without approval; (vi) the incurrence of debt; (vi) the removal and replacement of the Trustee, Tender Agent and Remarketing Agent; (vii) the change of accounting methods or fiscal year; (viii) preservation of the tax-exempt status of the Series 2007A Bonds and the Series 2008A Bonds; (ix) the Corporation's Debt Service Coverage Ratio or Days Cash on Hand; and (x) the redemption of Bonds or the conversion of the interest rate borne by the Bonds; or

(d) The Corporation shall fail to perform or observe any term, covenant or agreement (other than ones described in any other Event of Default) contained in the Initial Liquidity Facility or any of the Related Documents on its part to be performed or observed which failure continues for 30 days or more; or

(e) Default by the Corporation in the payment of any amount due in respect of any Debt owed to the Initial Liquidity Facility Provider or its affiliates or default by any Corporation in the payment of any amount due in respect of any other Debt in an aggregate amount in excess of $1,000,000 (measured in the case of any Interest Rate Protection Agreement, by the Corporation's Exposure thereunder), as and when the same shall become due, or default under any mortgage, agreement or other instrument under or pursuant to which such Debt is incurred or secured, and continuance of such default beyond the period of grace, if any, allowed with respect thereto, or the occurrence of any act or omission by the Corporation under any such mortgage, agreement or other instrument which results in such Debt becoming, or being capable of becoming, immediately due and payable (or, with respect to any Interest Rate Protection Agreement, which results in such Interest Rate Protection Agreement being terminated early or being capable of being terminated early); or

(f) Any provision of the Initial Liquidity Facility, the Bonds or any of the Related Documents shall cease to be valid and binding, or the Authority or the Corporation shall contest any such provision, or the Corporation or any agent or trustee on its behalf, shall deny that it has any further liability under any provision of the Initial Liquidity Facility, the Bonds or any of the Related Documents; or

(g) Any "event of default" under any of the Related Documents shall occur; or

(h) An Event of Insolvency shall have occurred with respect to the Corporation; or

(i) The California Department of Social Services or the California Department of Health Services (i) suspends, annuls or revokes any required permit, approval or license in connection with the Corporation's continuing care retirement facility (the "Facility"), (ii) materially increases any reserve requirement specifically with respect to the Corporation or the Facility, (iii) imposes any Lien in connection with the Facility (other than a Permitted Lien), (iv) files a petition for the appointment of a receiver or an administrator for the Facility, or files any action with respect to the Facility through the Attorney General of the State of California or otherwise, or (v) issues a cease and desist order or takes or causes the Attorney General of the State of California to take any other action or imposes any other requirement as a sanction for failure to meet any requirement of the CCRC Law, other applicable law or

the California Department of Social Services or the California Department of Health Services which is reasonably likely to have a Material Adverse Effect; or

(j) The Facility suffers a loss by fire or other casualty and such loss is not fully insured and any deficiency between the amount of insurance paid with respect to such loss and the value of the Facility destroyed exceeds $1,000,000; or

(k) The independent public accounting firm retained by the Corporation (i) delivers an opinion on the financial statements of the Corporation, which opinion states that such financial statements do not fairly or accurately present the financial condition of the Corporation or includes an explanatory paragraph which describes conditions which raise substantial doubt about the Corporation's ability to continue to operate as a going concern, or (ii) delivers an opinion on the annual financial statements of the Corporation which is qualified in any material respect (other than as to a change in generally accepted accounting principles with which such accountants concur).

2. Events of Default Permitting Immediate Suspension or Termination.

(a) Any principal or interest due on the Bonds is not paid when due and such principal or interest is not paid by the Bond Insurer when, as, and in the amounts required to be paid pursuant to the terms of the related Bond Insurance Policy; or

(b) The Bond Insurer shall in writing to the Trustee claim that any of the Bond Insurance Policies with respect to the payment of principal of or interest on any of the Bonds is not valid and binding on the Bond Insurer, or repudiate the obligations of the Bond Insurer under any of the Bond Insurance Policies with respect to payment of principal of or interest on any of the Bonds, or the Bond Insurer shall initiate any legal proceedings to seek an adjudication that any of the Bond Insurance Policies, with respect to the payment of principal or interest on any of the Bonds, or the mandatory redemption of any of the Bonds purchased by the Initial Liquidity Facility Provider pursuant to the terms of the Initial Liquidity Facility, is not valid and binding on the Bond Insurer, or any court or governmental authority with jurisdiction to rule on the validity of any of the Bond Insurance Policies shall announce, find or rule that any of the Bond Insurance Policies is not valid and binding on the Bond Insurer; or

(c) Either (i) the occurrence of a Bond Insurer Event of Insolvency, or (ii) Moody's withdraws or suspends its financial strength rating of the Bond Insurer (but excluding any withdrawal or suspension of such rating where Moody's stipulates in writing that the rating action is being taken for non-credit-related reasons) or reduce such rating below "Baa3"; or

(d) Any default by the Bond Insurer in making payment when, as and in the amounts required to be made pursuant to the express terms and provisions of (i) any other bond insurance policy issued by the Bond Insurer insuring publicly-sold domestic municipal (including private activity conduit) bonds, unless the obligation of the Bond Insurer to make such payment is being diligently contested by the Bond Insurer in good faith, or (ii) any financial guaranty insurance policy provided by the Bond Insurer in connection with the Bonds; or

(e) Without the prior written consent of the Initial Liquidity Facility Provider, any of the Bond Insurance Policies is cancelled or terminated, or is amended, modified or supplemented in any material respect, or an alternate bond insurance policy is substituted for any of the Bond Insurance Policies.

Remedies Upon Occurrence of an Event of Default. If any Event of Default shall have occurred and be continuing:

(1) Immediate Termination. In the case of an Event of Default specified in clauses (a), (c)(ii), (d) or (e) under the caption "– Events of Default Permitting Immediate Suspension or Termination" above (each an "Immediate Termination Event"), the Available Commitment, the Purchase Period and the obligation of the Initial Liquidity Facility Provider to purchase Bonds shall immediately terminate without notice or demand, and thereafter the Initial Liquidity Facility Provider shall be under no obligation to purchase Bonds. Promptly upon the Initial Liquidity Facility Provider obtaining knowledge of an Immediate Termination Event, the Initial Liquidity Facility Provider shall give written notice of the same to the Trustee, the Tender Agent, the Corporation, the Remarketing Agent and the Bond Insurer; provided that the Initial Liquidity Facility Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no manner affect the immediate termination of the Available Commitment and of the Initial Liquidity Facility Provider's obligation to purchase Bonds pursuant to the Initial Liquidity Facility.

(2) Termination With Notice. In the case of an Event of Default specified in clause (a), (h) or (c)(x) under the caption "– Events of Default Not Permitting Immediate Termination" above, the Initial Liquidity Facility Provider may terminate the Available Commitment and Purchase Period by giving written notice to the Trustee, the Tender Agent, the Corporation, the Remarketing Agent and the Bond Insurer, specifying the date on which the Available Commitment and Purchase Period shall terminate, which date shall be not less than thirty (30) days from the date of receipt of such notice by the Trustee and the Tender Agent. On and after such date of termination, Initial Liquidity Facility Provider shall be under no further obligation to purchase Bonds under the Initial Liquidity Facility.

(3) Suspension Relating to Contest of Bond Insurance Policy. In the case of an Event of Default specified in clause (b) under the caption "– Events of Default Permitting Immediate Suspension or Termination" above, the Initial Liquidity Facility Provider's obligation to purchase Bonds shall be immediately suspended without notice or demand and thereafter the Initial Liquidity Facility Provider shall be under no obligation to purchase Eligible Bonds unless and until the Available Commitment is reinstated as described in this clause (3). Promptly upon a Bank obtaining knowledge of any such Event of Default, the Initial Liquidity Facility Provider shall give written notice of the same to the Corporation, the Trustee, the Tender Agent, the Remarketing Agent and the Bond Insurer of such suspension; provided that the Initial Liquidity Facility Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Bank's obligation to purchase Bonds under the Initial Liquidity Facility. If a court with jurisdiction to rule on the validity of the Bond Insurance Policies shall thereafter enter a final, non-appealable judgment that any of the Bond Insurance Policies is not valid and binding on the Bond Insurer, then the Bank's obligation to purchase the Bonds under the Initial Liquidity Facility shall immediately terminate. If a court with jurisdiction to rule on the validity of the Bond Insurance Policies shall find or rule that any of the Bond Insurance Policies is valid and binding on the Bond Insurer, the Bank's obligations to purchase the related series of Bonds under the Initial Liquidity Facility shall be automatically reinstated and the terms of the Initial Liquidity Facility will continue in full force and effect (except to the extent the Bank's obligation to purchase Bonds shall otherwise have terminated or been suspended in accordance with the terms of the Initial Liquidity Facility including, without limitation, any suspension described in this clause (3) with respect to another of the Bond Insurance Policies not so ruled to be valid and binding). Notwithstanding the foregoing, if, upon the earlier of the Expiration Date or the date which is two (2) years after the effective date of suspension of the Bank's obligations as described in this clause (3), litigation is still pending and a judgment regarding the validity of any of the Bond Insurance Policies as is the subject of such Event of Default has not been obtained, then the Available Commitment and the obligation of the Initial Liquidity Facility Provider to purchase related series of Bonds shall at such time immediately

terminate, and thereafter the Initial Liquidity Facility Provider shall be under no obligation to purchase Bonds.

(4) Suspension Relating to Bond Insurer Insolvency. Upon the occurrence of any event or the existence of any condition which with the giving of notice, the passage of time, or both, would constitute an Event of Default (each a "Default") as described in clause (c)(i) under the caption "– Events of Default Permitting Immediate Suspension or Termination" above (including during any grace period provided in the definition of Bond Insurer Event of Insolvency), the Initial Liquidity Facility Provider's obligation to purchase Bonds shall be immediately suspended without notice or demand and thereafter Initial Liquidity Facility Provider shall be under no obligation to purchase Bonds until the Available Commitment is reinstated as described in this clause (4). Promptly upon the Initial Liquidity Facility Provider obtaining knowledge of any such Default, the Initial Liquidity Facility Provider shall give written notice of the same to the Corporation, the Trustee, the Tender Agent, the Remarketing Agent and the Bond Insurer of such suspension; provided that the Initial Liquidity Facility Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Bank's obligations under the Initial Liquidity Facility. In the event such Default is cured prior to becoming an Event of Default, the Bank's obligations shall be automatically reinstated and the terms of the Initial Liquidity Facility will continue in full force and effect (unless the Bank's obligation to purchase Bonds under the Initial Liquidity Facility shall otherwise have terminated or been suspended or in accordance with the terms of the Initial Liquidity Facility).

(5) Suspension Relating to Bond Insurer's Default on Other Policies. Upon the occurrence of a Default pursuant to clause (d) under the caption "– Events of Default Permitting Immediate Suspension or Termination" above, the Initial Liquidity Facility Provider's obligations to purchase Bonds shall be immediately suspended without notice or demand and thereafter Initial Liquidity Facility Provider shall be under no obligation to purchase Eligible Bonds until the Available Commitment is reinstated as described in this clause (5). Promptly upon the Initial Liquidity Facility Provider obtaining knowledge of any such Default, the Initial Liquidity Facility Provider shall give written notice of the same to the Corporation, the Trustee, the Tender Agent, the Remarketing Agent and the Bond Insurer of such suspension; provided that the Initial Liquidity Facility Provider shall incur no liability or responsibility whatsoever by reason of its failure to give such notice and such failure shall in no way affect the suspension of the Bank's obligations to purchase Bonds. If the Bond Insurer fails to pay under a bond insurance policy or financial guaranty insurance policy as described in clause (d) under the caption "– Events of Default Permitting Immediate Suspension or Termination" and such failure continues for 30 days without the Bond Insurer diligently contesting such obligation in good faith, the Bank's obligation to purchase Bonds and the Available Commitment shall immediately terminate. If the Bond Insurer fails to pay under a bond insurance policy or financial guaranty insurance policy as described in clause (d) under the caption "– Events of Default Permitting Immediate Suspension or Termination" and prior to the end of 30 days thereafter the Bond Insurer diligently contests such obligation in good faith and thereafter a court with jurisdiction to rule on the obligation of the Bond Insurer under such policy shall thereafter enter a final, non-appealable judgment that the Bond Insurer is obligated to make such contested payment and the Bond Insurer continues to fail to pay, then the Bank's obligation to purchase Bonds shall immediately terminate. If the Bond Insurer's obligation is contested as described in the preceding sentence and a court with jurisdiction to rule on the Bond Insurer's obligation shall find or rule that the Bond Insurer is not obligated to make such contested payment, the Bank's obligations to purchase Bonds under the Initial Liquidity Facility shall be automatically reinstated and the terms of the Initial Liquidity Facility will continue in full force and effect (unless the Bank's obligation to purchase Bonds shall otherwise have terminated or been suspended in accordance with the terms of the Initial Liquidity Facility). Notwithstanding the foregoing, if, upon the earlier of the Expiration Date or the date which is two (2) years after the effective date of suspension of the Bank's obligations as described in this clause (5), litigation regarding the obligation of the Bond Insurer to make such contested payment is still

pending and a judgment has not been obtained, then the Available Commitment and the obligation of the Initial Liquidity Facility Provider to purchase Bonds shall at such time immediately terminate, and thereafter the Initial Liquidity Facility Provider shall be under no obligation to purchase Bonds.

(6) Facility Fee Increase. In the case of any Event of Default specified under the caption " – Events of Default Not Permitting Immediate Termination" above, which has occurred and is continuing, upon notice by the Bank to the Corporation, the rate at which Facilities Fees are computed shall increase as provided in the Initial Liquidity Facility.

(7) Other Remedies. In addition to the rights and remedies set forth in clauses (1), (2), (3), (4), (5) and (6) above, in the case of any Event of Default, upon the election of the Initial Liquidity Facility Provider: (A) all amounts payable (other than payments of principal and redemption price of and interest on the related series of Bonds or payments of Excess Interest Amount) shall upon notice to the Corporation become immediately due and payable without presentment, demand, protest or further notice of any kind, all of which are expressly waived by the Corporation; and (B) the Initial Liquidity Facility Provider shall have all the rights and remedies available to it under the Initial Liquidity Facility, the Related Documents, the Bond Insurance Policies or otherwise pursuant to law or equity; provided that the Initial Liquidity Facility Provider shall not have the right to terminate its obligation to purchase Bonds or to declare any amount due and payable, or to accelerate the maturity date of any Series 2007 Bonds except as provided in the Indenture. Without limiting the generality of the foregoing, unless and until its obligation to purchase Bonds is terminated as described above, the Initial Liquidity Facility Provider is obligated to purchase Bonds on the terms and conditions of the Initial Liquidity Facility notwithstanding the institution or pendency of any bankruptcy, insolvency or similar proceeding with respect to the Corporation. The Initial Liquidity Facility Provider will not assert as a defense to its obligation to purchase Series 2007 Bonds under the Initial Liquidity Facility (i) the institution or pendency of any bankruptcy, insolvency or similar proceeding with respect to any Corporation, or (ii) a determination by a court of competent jurisdiction in a bankruptcy, insolvency or similar proceeding with respect to Corporation that of the Initial Liquidity Facility is not enforceable against the Corporation under applicable bankruptcy, insolvency or similar laws. The provisions described in this clause (7) shall not limit the exercise of the Initial Liquidity Facility Provider's remedies described above under the caption "– Remedies Upon Occurrence of an Event of Default."

(8) Cure. In the case of any Event of Default under the Initial Liquidity Facility, the Initial Liquidity Facility Provider shall have the right, but not the obligation, to cure any such Event of Default (in which case the Corporation shall reimburse the Initial Liquidity Facility Provider therefor pursuant to the Initial Liquidity Facility).

Extension of Initial Liquidity Facility. The Expiration Date of the Initial Liquidity Facility may be extended by the Initial Liquidity Facility Provider, at the option of the Initial Liquidity Facility Provider, for an additional period or periods acceptable to the Initial Liquidity Facility Provider upon the written request of the Corporation given to the Initial Liquidity Facility Provider no later than 120 days prior to the Expiration Date; provided that no such written request shall be submitted to the Bank more than three (3) years prior to the then current Expiration Date. Within 30 days of receipt of a request for extension, the Initial Liquidity Facility Provider shall either notify the Corporation and the Tender Agent that the Expiration Date will be extended to the new expiration date requested by the Corporation or notify the Corporation and the Tender Agent that the Expiration Date will not be so extended by delivery of written notice. The Initial Liquidity Facility Provider's failure to so respond to a requested extension of the Expiration Date shall constitute the Initial Liquidity Facility Provider's denial of such request.

The Initial Liquidity Facility Provider

KBC Bank N.V., New York Branch ("KBC NYB") is an unincorporated branch of KBC Bank N.V., a naamloze vennootschap (public company of limited liability) organized under the laws of Belgium, whose principal office is located in Brussels, Belgium. KBC Bank N.V. conducts operations through additional offices and agencies in the United States and around the world. Created on June 4, 1998 through the combination of two predecessor Belgian banks, Kredietbank N.V. and CERA Bank C.V., KBC Bank N.V. is subject to regulation by the Belgium Banking Commission and to Belgian banking and accounting law. KBC Bank N.V. maintains its records and prepares its financial statements in accordance with accounting principles generally accepted in Belgium. Such records and financial statements are maintained and prepared in Euro currency (EUR).

One of the largest commercial banks in Belgium, KBC Bank N.V. operates as a universal bank, engaged in commercial and investment banking, and offers comprehensive financial services. In contrast with the two other major Belgian banks, KBC Bank N.V.'s branches in Belgium are located exclusively in Flanders and Brussels. KBC Bank N.V. is indirectly represented through CBC Banque S.A., a majority-owned subsidiary with branches in the Walloon region and Brussels.

KBC NYB was originally established in 1977 as a New York Branch of Kredietbank N.V., and has been relicensed by the Banking Department of the State of New York as a New York Branch of KBC Bank N.V. to provide a full range of services in New York. In addition to handling foreign exchange transactions, KBC NYB is active in international payment transactions and the clearing of commercial payments and professional transactions in U.S. Dollars. KBC NYB is also involved in providing financial services, particularly credit, for European (including Belgian) companies operating in the United States, as well as for United States corporations.

Selected Consolidated Financial Data of KBC Bank N.V.

	Year Ended December 31, 2006 (EUR Millions)	
Total Assets	EUR	325,400
Amounts Owed to Customers		180,031
Loans and Advances to Customers		132,400
Total Equity		17,219
Net Income		3,430

Conversion Rate: As of December 31, 2006, EUR 0.759 = US$1.00

KBC NYB will provide, upon written request and without charge, a copy of KBC Bank N.V.'s Annual Report for the year ended December 31, 2006. Written requests should be directed to: KBC Bank N.V., New York Branch, 1177 Avenue of the Americas, New York, New York 10036, Attention: Controller.

The delivery of this Official Statement shall not create any implication that there has been no change in the affairs of KBC Bank N.V. since December 31, 2006 or that information contained or referred to herein under the caption “LIQUIDITY FACILITY – The Initial Liquidity Facility Provider” is current as of any time subsequent to such date.

Substitute Liquidity Facilities

A Substitute Liquidity Facility may become effective on any Business Day (a "Substitute Liquidity Facility Date"). Not less than fifteen (15) days prior to the proposed Substitute Liquidity Facility Date, the Corporation must have delivered to the Trustee, the Authority and the Bond Insurer (a) a draft of any Substitute Liquidity Facility in substantially final form and a commitment letter with respect thereto and (b) written evidence from each Rating Agency then maintaining a rating on such Series 2007 Bonds of the rating on such Series 2007 Bonds after the Substitute Liquidity Facility Date. On each Substitute Liquidity Facility Date, the Authority, the Bond Insurer, the Trustee and the Trustee's Agent must also receive (i) an opinion of counsel for the Substitute Liquidity Facility Provider regarding the enforceability of the Substitute Liquidity Facility in substantially the form delivered to the Trustee upon execution and delivery of the then-current Liquidity Facility, (ii) an Opinion of Bond Counsel to the effect that the substitution of the then-current Liquidity Facility will not, in and of itself, adversely affect the validity or enforceability of such Series 2007 Bonds or result in the inclusion of interest on such Series 2007 Bonds in gross income for federal income tax purposes, and (iii) the written consent of the Bond Insurer to the Substitute Liquidity Facility, which consent may not be unreasonably withheld.

The Corporation covenants and agrees that at all times while any Series 2007 Bonds are outstanding which bear interest at the Daily Rate or Weekly Rate, if the rating of the Initial Liquidity Facility Provider is lowered by either Moody's, Fitch or S&P below "A-1" or "VMIG-1", respectively, then the Corporation shall, unless otherwise consented to in writing by the Bond Insurer, use its best efforts to obtain a Substitute Liquidity Facility within ninety (90) days of receipt of notice of the downgrade of the rating of the Initial Liquidity Facility Provider.

THE AUTHORITY

The Authority is a joint powers authority 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 SERIES 2007 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED THEREFOR PURSUANT TO THE INDENTURE. NONE OF THE AUTHORITY, 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 SERIES 2007 BONDS. THE SERIES 2007 BONDS AND THE OBLIGATION TO PAY PRINCIPAL AND PURCHASE PRICE THEREOF 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 SERIES 2007 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 OR PURCHASE PRICE OF, OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2007 BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

PLAN OF FINANCE

General

The proceeds of the Series 2007 Bonds, together with certain other moneys, will be used to (i) advance refund the Refunded Bonds, (ii) pay costs of the Project, (iii) fund a portion of the Debt Service Reserve Fund, and (iv) pay costs and expenses incurred in connection with the issuance of the Series 2007 Bonds, including the costs of obtaining the Policy for the Series 2007 Bonds. For more detailed information regarding the use of proceeds of the Series 2007 Bonds, see the information under the caption "ESTIMATED SOURCES AND USES OF FUNDS."

Advance Refunding of the Refunded Bonds

The California Health Facilities Financing Authority previously issued the Refunded Bonds in the aggregate principal amount of $45,340,000, of which $30,805,000 currently remain outstanding. All of the Refunded Bonds currently outstanding will be advance refunded with the proceeds of the Series 2007 Bonds. In order to accomplish an advance refunding of and to secure the payment of principal and interest on the Refunded Bonds on or prior to August 1, 2008 and to redeem on August 1, 2008 at a redemption price of 100% of the principal amount thereof, plus the interest accrued thereon to such redemption date, a portion of the proceeds of the sale of the Series 2007 Bonds will be used, together with certain other moneys, to purchase Government Obligations, which will be deposited with and held in a trust fund (the "Escrow Fund") by U.S. Bank National Association, as trustee for the Series 1998 Bonds (the "Escrow Agent") for the benefit of the holders of the Series 1998 Bonds. The Escrow Fund will be established pursuant to an Escrow Deposit and Trust Agreement dated as of May 1, 2007 (the "Escrow Deposit Agreement"), between the Corporation and the Escrow Agent. The Government Obligations on deposit in the Escrow Fund will be in a principal amount which, together with the interest to be earned thereon without consideration of any reinvestment thereof, and certain cash to be deposited in such trust fund, will be sufficient to pay the principal of and interest on the Refunded Bonds in accordance with the provisions of the Escrow Deposit Agreement.

Project

A portion of the proceeds of the Series 2007 Bonds will be used to reimburse the Corporation for amounts previously expended to construct and equip the Corporation's Dementia Unit.

Interest Rate Swap Transaction

In connection with the issuance of the Series 2007 Bonds, the Corporation has entered into four interest rate exchange agreements (collectively, the "Swap Agreements") one with one counterparty rated Aa2/AA- and the other three with a counterparty rated Aa3/A+ (collectively, the "Counterparties"). In general, the Swap Agreements each provide that, subject to the terms thereof, the Corporation will pay a fixed rate and receive a floating rate determined pursuant to the actual rate on the Series 2007A Bonds for one Swap Agreement and a formula based on LIBOR for the other three Swap Agreements, based on an aggregate notional amount equal initially to the aggregate principal amount of the Series 2007 Bonds, declining in amounts equal to the anticipated amortization of the Series 2007 Bonds. Two of the Swap Agreements are effective May 2, 2007 and terminate on August 1, 2008. The other two Swap Agreements are effective August 1, 2008 and terminate on September 1, 2036.

Under certain circumstances, each Swap Agreement is subject to termination in whole or in part prior to its scheduled termination dates and prior to the maturity of the Series 2007 Bonds. Following any such termination, either the Corporation or the Counterparty may then owe a termination payment to the

other, depending upon market conditions then prevailing. In the event of an early termination of any of the Swap Agreements, there can be no assurance that (i) the Corporation will receive any termination payment payable to it by the Counterparty, (ii) the Corporation will have sufficient amounts to pay a termination payment payable by it to the Counterparty, or (iii) the Corporation will be able to obtain a replacement swap agreement with comparable terms. Payment due upon early termination may be substantial.

Certain of the obligations of the Corporation under the Swap Agreements will be insured by Radian Asset Assurance Inc. pursuant to a swap insurance policy. The obligation of the Corporation to make scheduled payments under the Swap Agreements are secured on parity with payments due bondholders under the Indenture and will be secured by Radian Asset Assurance Inc. Additionally, certain payments due upon the termination of the Swap Agreements prior to the stated termination date thereof are secured by revenues on a subordinated basis under the Indenture. See "BONDHOLDERS' RISKS – Interest Rate Swap and Other Hedge Risk."

The agreement by the Counterparties to pay certain amounts to the Corporation under the Swap Agreements will not alter or affect the obligation of the Corporation under the Loan Agreement to pay the principal of, interest on, and premium, if any, on any of the Series 2007 Bonds. Neither the owners of the Series 2007 Bonds nor any other person other than the Corporation will have any rights under the Swap Agreements or against the respective Counterparties.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds of the Series 2007 Bonds are as follows:

Sources of Funds	
Proceeds of Series 2007 Bonds	$45,645,000.00
Funds related to the Refunded Bonds	7,219,254.56
Total Sources of Funds	$52,864,254.56
Uses of Funds	
Deposit to Advance Refund the Refunded Bonds	$31,440,886.98
Deposit to Debt Service Reserve Fund	2,667,597.04
Deposit to Project Fund	16,700,000.00
Issuance Expenses[1]	2,055,770.54
Total Uses of Funds	$52,864,254.56

(1) Including, without limitation, the cost of the Policy and the estimated fees and expenses, as applicable, of the Underwriter, Underwriter's Counsel, Bond Counsel, the Authority, the Authority's Counsel, the auditors, the Trustee, counsel to the Trustee, the Initial Liquidity Facility Provider, counsel to the Initial Liquidity Facility Provider, the Rating Agency, the Bond Insurer and other miscellaneous costs incurred in connection with the issuance of the Series 2007 Bonds.

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth the amounts required in each year ended on September 1 for the payment of principal (at maturity or by mandatory redemption) of and interest on the Series 2007 Bonds.

Year Ended	Series 2007 Bonds[1]		
September 1	Principal	Interest	Total
2007	--	$ 722,732	$ 722,732
2008	--	2,107,384	2,107,384
2009	$ 865,000	1,815,741	2,680,741
2010	900,000	1,781,408	2,681,408
2011	935,000	1,745,572	2,680,572
2012	970,000	1,708,342	2,678,342
2013	1,010,000	1,669,716	2,679,716
2014	1,050,000	1,629,500	2,679,500
2015	1,090,000	1,587,691	2,677,691
2016	1,135,000	1,544,286	2,679,286
2017	1,185,000	1,499,088	2,684,088
2018	1,225,000	1,451,909	2,676,909
2019	1,280,000	1,403,125	2,683,125
2020	1,330,000	1,352,158	2,682,158
2021	1,380,000	1,299,201	2,679,201
2022	1,440,000	1,244,246	2,684,246
2023	1,495,000	1,186,909	2,681,909
2024	1,550,000	1,127,383	2,677,383
2025	1,615,000	1,065,660	2,680,660
2026	1,680,000	1,001,352	2,681,352
2027	1,745,000	934,457	2,679,457
2028	1,815,000	864,973	2,679,973
2029	1,885,000	792,703	2,677,703
2030	1,965,000	717,639	2,682,639
2031	2,040,000	639,398	2,679,398
2032	2,125,000	558,164	2,683,164
2033	2,205,000	473,552	2,678,552
2034	2,290,000	385,753	2,675,753
2035	2,385,000	294,564	2,679,564
2036	2,480,000	199,596	2,679,596
2037	2,575,000	100,847	2,675,847
TOTAL	$45,645,000	$34,905,047	$80,550,047

[1] As described under the caption "PLAN OF FINANCE," the Corporation has entered into the Swap Agreements. For purposes of this table, the Series 2007 Bonds bear interest at the fixed rate per annum payable by each Counterparty under the Swap Agreements and the interest figures include annual remarketing fees and annual fees of the Initial Liquidity Facility Provider.

BONDHOLDERS' RISKS

General

The Series 2007 Bonds are payable solely from the payments to be made by the Corporation pursuant to the Loan Agreement. No representation or assurance can be made that such revenues, as presently estimated or otherwise, will be realized by the Corporation in the amounts necessary to make payments in amounts sufficient to pay the principal of and interest on the Series 2007 Bonds. The amount of the Corporation's future revenues and expenses is subject to, among other things, the capabilities of the management of the Corporation, receipt of grants and contributions, imposition of government wage and price controls, changes in social security eligibility or payments, changes or restrictions in the Medicare program and future economic and other conditions which are unpredictable and which may affect the Corporation's revenues and thereby payment of principal of and interest on the Series 2007 Bonds.

Bond Insurance

The Bond Insurance Policy does not insure the principal of or interest on the Series 2007 Bonds coming due by reason of acceleration, optional redemption or optional or mandatory tender, nor does it insure the payment of a redemption premium, if any, payable upon the redemption of the Series 2007 Bonds.

Under no circumstances, including the situation in which the interest on the Series 2007 Bonds becomes subject to federal taxation for any reason, can the Series 2007 Bonds be accelerated without the consent of the Bond Insurer, so long as the Bond Insurer performs its obligations under the Insurance Policy. Furthermore, so long as the Bond Insurer performs its obligations under the Insurance Policy, the Bond Insurer may direct, and must consent to, any remedies that the Trustee exercises under the Indenture.

There can be no assurance that the Bond Insurer will be financially able to meet its contractual obligations under the Bond Insurance Policy. In the event that the Bond Insurer is unable to make payments of principal and interest on the Series 2007 Bonds as such payments become due, the Series 2007 Bonds are payable solely from moneys received by the Trustee pursuant to the Loan Agreement and the Indenture. See the information under the caption "FINANCIAL GUARANTY INSURANCE" for further information concerning the Bond Insurer and the Policy. Such information was provided by the Bond Insurer, and no representation is made as to the adequacy or accuracy thereof.

In the event that Bond Insurer is required to pay principal of or interest on the Series 2007 Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Series 2007 Bonds.

The ratings on the Series 2007 Bonds are dependent upon the ratings of the Bond Insurer. The Bond Insurer's current ratings are predicated upon, among other things, a level of reserves in excess of the levels required by the various state agencies regulating insurance companies. The level of reserves maintained by the Bond Insurer could change over time and this could result in a downgrading of the ratings on the Series 2007 Bonds. The Bond Insurer is not contractually bound to maintain its present level of reserves in the future. See the information under the caption "RATINGS."

Initial Liquidity Facility

Under the Initial Liquidity Facility, subject to the terms and conditions and to the extent provided for therein and described herein, the Initial Liquidity Facility Provider agrees to make funds available (up

to an aggregate amount of the principal amount of the Series 2007 Bonds Outstanding plus 34 days' interest at a rate of 12% per annum) to pay the purchase price for Series 2007 Bonds bearing interest at a Weekly Rate that are tendered or required to be tendered for purchase and not remarketed or for which remarketing proceeds are not available. With the consent of the Initial Liquidity Facility Provider, the Initial Liquidity Facility may also provide for the purchase of Series 2007 Bonds bearing interest at a Daily Rate that are so tendered and not remarketed. The obligation of the Initial Liquidity Facility Provider to make funds available under the Initial Liquidity Facility will expire on May 2, 2012, but may be terminated prior to that date, extended or replaced. In addition, that obligation is subject to certain conditions and in certain circumstances such obligation may be terminated without notice. See "LIQUIDITY FACILITY."

Failure to Achieve and Maintain Sufficient Occupancy; Uncertainty of Revenues

The ability of the Corporation to generate sufficient revenues depends in large part upon their ability to attract sufficient numbers of residents to their respective facilities in order to achieve and then to maintain substantial occupancy throughout the term of the Series 2007 Bonds. The ability of the Corporation to achieve, and then to maintain, substantial occupancy depends to some extent on factors outside their control.

The success of the Corporation's facilities is dependent on the maintenance of high future occupancy levels at their facilities by eligible residents who will be able to pay the fees charged, the capabilities of the management of the facilities and future economic and other conditions which are unpredictable, including the availability of Medicare. See "BONDHOLDERS' RISKS – Present and Prospective Federal and State Regulation." Any of these factors may affect revenues and payment of debt service on the Series 2007 Bonds. No representation or assurance can be made that revenues will be realized by the facilities in amounts sufficient to make the required payments on the Series 2007 Bonds.

Existing Operations and Possible Increased Competition

The revenues and expenses associated with the operation of the Corporation's existing nursing care and other residential facilities will be affected by further events and conditions relating generally to, among other things, government regulations, third-party reimbursement programs, demand for skilled nursing home and assisted living and residential services, the ability of the Corporation to provide the services required by residents, economic developments in the affected service areas, competition, rates and costs. The facilities owned by the Corporation are subject to substantial competition from facilities providing similar or comparable services. Such competition likely will inhibit the extent to which the Corporation will be able to raise charges and maintain or increase admissions. There can be no assurance that additional competing facilities will not be constructed in the future.

Sales of Homes

Prospective residents of the facilities of the Corporation may encounter difficulty in selling their current homes due to national and local economic conditions impairing the sale of residential real estate and, therefore, may not have sufficient assets to pay monthly fees.

Utilization Demand

Several factors could, if implemented, affect demand for services offered at the facilities of the Corporation, including: (i) efforts by insurers and governmental agencies to reduce utilization of nursing home and long-term care facilities by such means as preventive medicine and home health care programs; (ii) advances in scientific and medical technology; and (iii) increased or more effective competition from

skilled nursing homes, assisted living facilities and long-term care facilities now or hereafter located in the service area of the Corporation.

Nature of Facilities

The Corporation's facilities are not comprised of general purpose buildings and generally would not be suitable for industrial, other residential or commercial use. Consequently, it could be difficult to find a buyer or lessee for such facilities and, upon any default, the Trustee may not realize the amount of the outstanding Series 2007 Bonds or any other Indebtedness outstanding from the sale or lease of such facilities if it were necessary to proceed against such facilities, pursuant to a judgment, if any, against the Corporation, including in the event of foreclosure under the Deed of Trust.

Present and Prospective Federal and State Regulation

General. The operations of the Corporation, like other health care facilities throughout the country, will be affected on a day-to-day basis by numerous legislative, regulatory and industry-imposed operations and financial requirements which are administered by a variety of federal and state governmental agencies as well as by self-regulatory associations and commercial medical insurance reimbursement programs. It is impossible, however, to predict the effect of any such legislation and regulation on the operations or financial condition of the Corporation's facilities.

Nursing care facilities, including those of the Corporation, are subject to numerous licensing, certification, accreditation, and other governmental requirements. These include, but are not limited to, requirements relating to Medicare participation and payment, requirements relating to state licensing agencies, private payors and accreditation organizations and certificate of need approval by state agencies of certain capital expenditures. Sheltered and assisted living facilities, including those of the Corporation, are also subject to licensing requirements. Renewal and continuance of certain of these licenses, certifications, approvals and accreditations are based upon inspections, surveys, audits, investigations or other review, some of which may require or include affirmative action or response by the Corporation. An adverse determination could result in a loss, fine or reduction in the Corporation's scope of licensure, certification or accreditation, could affect the ability to undertake certain expenditures or could reduce the payment received or require the repayment of the amounts previously remitted. The Corporation currently anticipates no difficulty in renewing or continuing currently held licenses, certifications and accreditations.

Medicare Program

Medicare is the commonly used name for a federal reimbursement or payment program governed by certain provisions of the federal Social Security Act. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital services and certain other services, and Medicare Part B covers physician services, medical supplies and durable medical equipment.

Medicare. Health care providers, including the Corporation, may participate in the Medicare program subject to certain conditions of participation and acceptance of a provider agreement by the federal Secretary of Health and Human Services ("HHS"). Only covered services, upon the satisfaction of certain criteria, are eligible for Medicare reimbursement. Medicare Part A reimburses for certain post-hospital inpatient skilled nursing and rehabilitation care for up to 100 days during the same spell of illness. The federal government has implemented a Prospective Payment System ("PPS") for Medicare reimbursement, to shift more of the financial risk of the cost of long-term care from the federal government to the provider. The prior system was a retrospective cost-based system. The PPS is based

on historical costs and resource utilization of the residents. Geographic variations in labor costs are also considered. The PPS applies to cost reporting periods beginning on or after July 1, 1998.

Medicare Anti-Fraud and Abuse Provisions. The Medicare anti-fraud and abuse provisions of the Social Security Act (the "Anti-Kickback Law") make it a felony, subject to certain exceptions, to engage in illegal remuneration arrangements with physicians and other health care providers for the referral of Medicare beneficiaries. Violation of these provisions constitutes a felony and may result in imprisonment for up to five years and fines of up to $25,000. In addition, HHS has the authority to impose civil assessments and fines, and may exclude providers engaged in prohibited activities from participation in the Medicare program, as well as certain other state and federal health care programs. The Secretary of HHS is required to exclude from such programs any providers convicted of a criminal offense relating to the delivery of Medicare services, for not less than five years. Exclusion from these programs would have a material adverse effect on the operations and financial condition of the Corporation. The scope of prohibited payments in the Anti-Kickback Law is broad. HHS has published regulations which describe certain arrangements that will not be deemed to constitute violations of the Anti-Kickback Law. The safe harbors described in the regulations are narrow and do not cover a wide range of economic relationships which many hospitals, physicians and other health care providers consider to be legitimate business arrangements not prohibited by the statute. Because the regulations describe safe harbors and do not purport to describe comprehensively all lawful or unlawful economic arrangements or other relationships between health care providers and referral sources, health care providers having these arrangements or relationships may be required to alter them in order to ensure compliance with the Anti-Kickback Law.

Management of the Corporation believes that it is currently in material compliance with the Anti-Kickback Law. However, in light of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, there can be no assurances that the Corporation will not be found to have violated the Anti-Kickback Law, and, if so, whether any sanction imposed would have a material adverse effect on the operations of facilities owned by the Corporation.

Restrictions on Referrals. Current federal law (known as the "Stark" law provisions) prohibits providers of "designated health services" from billing Medicare when the patient is referred by a physician or an immediate family member with a financial relationship with the provider, with limited exceptions. "Designated health services" include the following: clinical laboratory services; physical therapy services; occupational therapy services; radiology services, including magnetic resonance imaging, computerized axial tomography scans, and ultrasound services; radiation therapy services and supplies; durable medical equipment and services; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics, and prosthetic devices and supplies; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services. The sanctions under the Stark law include denial and refund of payments, civil monetary penalties and exclusions from the Medicare program.

Management of the Corporation believes that they currently are in material compliance with the Stark provisions. However, in light of the scarcity of case law interpreting the Stark provisions, there can be no assurances that the Corporation will not be found to have violated the Stark provisions, and if so, whether any sanction imposed would have a material adverse effect on the operations or the financial condition of the Corporation as a whole.

False Claims Act/Qui Tam Actions. Medicare requires that extensive financial information be reported on a periodic basis and in a specific format or content. These requirements are numerous, technical and complex and may not be fully understood or implemented by billing or reporting personnel. With respect to certain types of required information, the False Claims Act and the Social Security Act

may be violated by mere negligence or recklessness in the submission of information to the government even without any intent to defraud. New billing systems, new medical procedures and procedures for which there is not clear guidance may all result in liability. The penalties for violation include criminal or civil liability and may include, for serious or repeated violations, exclusion from participation in the Medicare program.

The False Claims Act provides that an individual may bring a civil action for a violation of the Act. These actions are referred to as Qui Tam actions. In this way, an employee would be able to sue on behalf of the U.S. government if he/she believes that the healthcare entity has committed fraud. If the government proceeds with an action brought by this individual, then he/she could receive as much as 25% of any money recovered. The potential exists that a Qui Tam action could be brought against the Corporation or any other Corporation.

State Reimbursement and Regulatory Issues — California Licensure and Certificate of Need

Skilled Nursing Facilities. SNFs provide skilled nursing care and supportive care to patients whose primary need is for skilled nursing care on an extended basis. SNFs in California are licensed and inspected by the State Department of Health Services. Operational requirements for SNFs include the maintenance of a theft and loss program and transfer policies and protocols, the provision of notice to patients of scheduled room rate increases, and compliance with regulations regarding, among other things, staffing minimums and physical plant standards. In addition, SNFs must maintain an approved personnel certification and training program meeting standards established by the State Department of Health Services and must provide an activity program to facility patients.

The State Department of Health Services may suspend or revoke a SNF's license on the grounds of: (a) violation of any applicable statute or regulation with respect to SNFs; (b) aiding, abetting or permitting the violation of any such applicable law; (c) conduct inimical to the public health, morals, welfare or safety of California residents in the maintenance and operation of the premises or services for which a SNF license is issued; or (d) conviction of the licensee at any time during licensure of a crime involving a violation of any law which is substantially related to the qualifications or duties of the licensee or which is substantially related to the functions of the business for which the license was issued. Further, whenever circumstances exist indicating that continued management of a SNF by the current licensee would present a substantial probability or imminent danger of serious physical harm or death to facility patients or there exists in the SNF a condition in substantial violation of any applicable statute or regulation with respect to SNFs, or the SNF exhibits a pattern or practice of habitual violation of any such applicable law, or the SNF is closing or intends to terminate operation as a licensed SNF and adequate arrangements for patient relocation have not been made at least 30 days prior to the closing or termination, the State Department of Health Services may petition the Superior Court for the county in which the SNF is located for an order appointing a receiver to temporarily operate the SNF.

Residential Care Facilities for the Elderly. Residential care facilities for the elderly ("RCFEs") are licensed housing arrangements where varying levels and intensities of care and supervision, protective supervision, or personal care are provided to residents based upon their varying needs. Such facilities generally provide a range of services that stop just short of medical care, including meals, shelter, laundry, transportation, supervision with medications and limited assistance with the activities of daily living. RCFEs must comply with certain conditions of licensure and operation, as required and enforced by the State Department of Social Services, including, among other things, maintenance of a theft and loss program, provision of certain enumerated basic services and preparation of resident records.

A RCFE may have its license suspended or revoked for the following reasons: (a) violation of any applicable statute or regulation with respect to RCFEs; (b) aiding, abetting or permitting the violation of

any such applicable law; (c) conduct inimical to the health, morals, welfare or safety of either an individual in or receiving services from the RCFE or California residents; or (d) conviction of a licensee at any time during licensure of a crime other than a minor traffic violation. Also, the State Department of Social Services may require a RCFE to remove a resident who has a health condition which cannot be cared for within the limits of a RCFE license or requires inpatient care in a health facility as determined by the Department.

Independent Living Apartments. Independent living apartments are not currently subject to a licensure requirement in California. As a result, there is no legal definition of this type of facility. Such facilities tend to provide independent living accommodations, communal meals, housekeeping and concierge services. Independent living facilities neither offer nor arrange for assistance with daily living activities, health assessments or continuing intermittent health care services.

Continuing Care Contracts. The Department of Social Services governs and monitors the provision of continuing care under "continuing care" contracts. Continuing care contracts are agreements between a person sixty years or older and a provider whereby the provider undertakes the responsibility for providing personal, nursing, medical and health services and long-term board and lodging for a person's lifetime, in exchange for any prepayment or transfer of property prior to such services actually being rendered, whether or not such prepayments or transfers are supplemented with other payments. In accordance with California law, a provider may not enter into a continuing care contract without a certificate of authority issued by the Department of Social Services. The certificate of authority is required in addition to the licensure requirements governing the component parts of a continuing care retirement community ("CCRC"), such as skilled nursing, or residential care services.

Each applicant for a certificate of authority to enter into continuing care contracts as a provider is subject to review by the Department of Social Services of its financial statements, projected annual income statements, marketing plans and escrow agreements regarding reserved funds. In addition, providers must produce a copy of the proposed forms of continuing care contract, which must comply with certain specific requirements enumerated by statute. Furthermore, providers of continuing care services must comply with operational requirements regarding, inter alia, advertising, construction, and cancellation of continuing care contracts. Disclosure requirements continue post-certification, as a provider of continuing care services must file an annual report, including audited financial statements, within four months after the end of the provider's fiscal year.

Certificates of authority may be suspended, limited or revoked for cause for reasons, including failure to comply with applicable licensing and regulatory requirements, failure to maintain minimum reserve requirements and failure to file the required annual report. In addition, if a provider of continuing care services fails to establish or depletes the required reserves so that the protection of residents is placed in serious jeopardy, the Department of Social Services may petition the superior court in the county in which such facility is located for an order appointing an administrator to assume possession and management of the facility and its assets. Furthermore, if a provider fails to comply with certain ongoing disclosure requirements, or at any other time when the Department of Social Services has reason to believe the provider is insolvent (or in imminent danger of becoming insolvent) or may be unable to perform its obligations pursuant to its continuing care contracts, the Department may require the provider to submit a financial plan detailing the method of overcoming the deficiencies. Finally, when necessary to secure performance of all obligations of a provider to provide continuing care services to residents, the Department of Social Services may record a notice(s) of a lien on behalf of residents. Such a lien shall attach to all real property owned or acquired by the provider during the pendency of the lien, provided such property is not exempt from the execution of a lien and is located within the county in which the lien is recorded. The lien shall have the force, effect and priority of a judgment lien.

Management of the Corporation believes that the Corporation is in compliance with all relevant statutory and regulatory requirements. Failure to comply with any of the foregoing regulations may have a material adverse effect on the obligations of the Corporation and any future Members of the Corporation.

Certificate of Need. SNFs and RCFEs are not subject to a certificate of need requirement in California.

Management of the Corporation believes that its California facilities are in compliance with state licensure requirements. Any failure to maintain compliance could have a material adverse effect on the operations of the Corporation.

Regulatory Compliance

The above state licensing requirements are subject to change, and there can be no assurance that the Corporation's facilities will continue to be able to maintain necessary licenses and certificates of need or that they will not incur substantial costs in doing so. Failure to comply with such requirements could result in the loss of the right to payment by Medicare as well as the right to conduct the business of the licensed entity. Further, the facilities operated by the Corporation are subject to periodic inspection by governmental and other regulatory authorities to assure continued compliance with various standards and to provide for their continued licensing under state law and certification under the Medicare program.

From time to time, the Corporation's facilities receive notices from federal and state regulatory agencies relating to alleged deficiencies for failure to comply with all components of the licensure regulations. While the Corporation endeavors to comply with all applicable regulatory requirements, from time to time certain of the Corporation's facilities have been subject to various sanctions and penalties as a result of deficiencies alleged by the Health Care Financing Administration ("HCFA"), an agency of the United States Department of Health and Human Services ("HHS") or state survey agencies. While in certain instances denial of certification or licensure revocation actions have been threatened, management believes that the Corporation will not suffer any material adverse effect as a result thereof. There can be no assurance, however, that the Corporation or the other Members of the Corporation will not be subject to sanctions and penalties in the future as a result of such actions.

State Anti-Kickback and Physician Self-Referral Prohibitions. California also has similar anti-kickback statutes and physician self-referral prohibitions to the federal laws described earlier. Violations of these laws may result in civil and criminal penalties. Management of the Corporation believes that it is presently in material compliance with these state laws. However, in light of the broad language and interpretation of these laws, there can be no assurances that the Corporation will not be found to have violated these state laws, and, if so, that any sanction imposed would not have a material adverse effect on the operations of the facilities or the financial condition of the Corporation.

Pending Legislation

The Corporation's facilities are subject to a wide variety of federal, state, and local regulatory, legislative and policy changes which could have a significant impact on the Corporation and the other Members of the Corporation. Various legislative proposals could affect the accounting for and use of entrance fees, segregated accounts and reserve requirements, and the monthly service fees charged to residents. In addition, government entities may enact legislation that imposes significant new burdens on the operations of the Corporation and the other Members of the Corporation or alters or eliminates programs that contribute to the revenues of the Corporation and the other Members of the Corporation. There can be no assurance that legislative bodies will not make legislative policy changes (or direct

government agencies to promulgate regulatory changes) that have adverse effects upon the Corporation and the other Members of the Corporation.

Other Legislation

Section 7872 of the Code (Treatment of Loans with Below-Market Interest Rates), provides for, in certain circumstances, the imputation of interest income to a lender when the rate of interest charged by the lender is below prevailing market rates (as determined under a formula) or, even if the below market interest rate loan would otherwise be exempt from the provisions of Section 7872, when one of the principal purposes for such below-market rate loan is the avoidance of federal income taxation.

A refundable entrance fee payment made by a resident to certain continuing care facilities may be determined under Section 7872 to constitute a below market interest rate loan by the resident to the facility to the extent that the resident is not receiving a market rate of interest on the refundable portion of the entrance fee. Section 7872(g) provides a "safe harbor" exemption for certain types of refundable entrance fees. The statutory language of Section 7872 does not permit a conclusive determination as to whether the residency agreements executed by residents of the Corporation's facilities come within the scope of the continuing care facility safe harbor or within the statute itself. Section 7872 is applicable only to "loans" in excess of $163,300. Entrance fees for some of the Corporation's residential living units are in excess of the applicable threshold of Section 7872. Any determination of applicability of Section 7872 could have the effect of discouraging potential residents from becoming or remaining residents of the facilities of the Corporation.

Intermediate Sanctions

On July 31, 1996, the Taxpayers Bill of Rights 2 (the "Taxpayers Act") was signed into law. The Taxpayers Act provides the IRS with an "intermediate" tax enforcement tool to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Previous to the "intermediate sanctions law," the IRS could punish such violations only through revocation of an entity's tax-exempt status.

Intermediate sanctions may be imposed where there is an "excess benefit transaction," defined to include a disqualified person (i.e., an insider) (1) engaging in a non-fair market value transaction with the tax-exempt organization; (2) receiving unreasonable compensation from the tax-exempt organization; or (3) receiving payment in an arrangement that violates the private inurement proscription.

A disqualified person who benefits from an excess benefit transaction will be subject to a "first tier" penalty excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in an excess benefit transaction knowing it to be improper are subject to a first-tier penalty excise tax of 10% of the amount of the excess benefit, subject to a maximum penalty of $10,000. A "second tier" penalty excise tax of 200% of the amount of the excess benefit may be imposed on the disqualified person (but not the organizational manager) if the excess benefit transaction is not corrected in a specified time period.

The IRS has also issued Revenue Rulings dealing specifically with the manner in which a facility providing residential services to the elderly must operate in order to maintain its exemption under Section 501(c)(3). Revenue Rulings 61-72 and 72-124 hold that, if otherwise qualified, a facility providing residential services to the elderly is exempt under Section 501(c)(3) if the organization (1) is dedicated to providing, and in fact provides or otherwise makes available services for, care and housing to aged individuals who otherwise would be unable to provide for themselves without hardship, (2) to the extent of its financial ability, renders services to all or a reasonable proportion of its residents at substantially

below actual cost and (3) renders services that minister to the needs of the elderly and relieve hardship or distress. Revenue Ruling 79-18 holds that a facility providing residential services to the elderly may admit only those tenants who are able to pay full rental charges, provided that those charges are set at a level that is within the financial reach of a significant segment of the community's elderly persons. The Revenue Ruling also holds that the organization must be committed, by established policy, to maintaining persons as residents, even if they become unable to pay the monthly charges after being admitted to the facility.

Corporate Practice of Medicine

Many states, including California, prohibit business corporations and other persons or entities not licensed to practice medicine from providing, or holding themselves out as providers of, medical care. Possible sanctions for violation of any of these restrictions or prohibitions include loss of licensure or eligibility to participate in reimbursement programs and civil and criminal penalties. These laws, their construction and level of enforcement, vary from state to state. Management of the Corporation believes that its facilities are, and will continue to be, in compliance with any restrictions on the corporate practice of medicine. Any failure to maintain this compliance could have a material adverse effect on the operations of the Corporation.

Certain Risks Associated with the Deed of Trust

The Corporation will execute the Deed of Trust to secure its obligations pursuant to the Loan Agreement. In the event that there is a default under the Indenture, the Trustee has the right to foreclose on such facilities under certain circumstances. All amounts collected upon foreclosure of the facilities pursuant to the Deed of Trust will be used to pay certain costs and expenses incurred by, or otherwise related to, the foreclosure, the performance of the Trustee and/or the beneficiary under the Deed of Trust, and then to pay amounts owing under the Indenture. While the Deed of Trust will secure the Series 2007 Bonds, such Mortgage may be modified or terminated with the consent of the Bond Insurer and without the consent of any holders of the Series 2007 Bonds.

Any valuation of the facilities is based on future projections of income, expenses, capitalization rates and the availability of the partial or total property tax exemption. Additionally, the value of the facilities will at all times be dependent upon many factors beyond the control of the Corporation, such as changes in general and local economic conditions, changes in the supply of or demand for competing properties in the same locality, and changes in real estate and zoning laws or other regulatory restrictions. A material change in any of these factors could materially change the value in use of the facilities. Any weakened market condition may also depress the value of the facilities of the Corporation. Any reduction in the market value of the facilities could adversely affect the security available to the owners of the Series 2007 Bonds. There is no assurance that the amount available upon foreclosure of the facilities after the payment of foreclosure costs will be sufficient to pay the amounts owing by the Corporation on the Series 2007 Bonds.

In the event of foreclosure, a prospective purchaser of the facilities may assign less value to the facilities than the value of such facilities while owned by the Corporation since such purchaser may not enjoy the favorable financing rates associated with tax-exempt bonds, including the Series 2007 Bonds, real estate tax exemption and other benefits. To the extent that buyers whose income is not tax-exempt may be willing to pay less for the facilities than nonprofit buyers, then the resale of the facilities after foreclosure may require more time to solicit nonprofit buyers interested in assuming the financing now applicable to the facilities. In addition, there can be no assurance that the facilities could be sold at one hundred percent (100%) of its fair market value in the event of foreclosure. Although the holders of the Series 2007 Bonds will have available the remedy of foreclosure of the Deed of Trust in the event of a

default (after giving effect to any applicable grace periods, and subject to any legal rights which may operate to delay or stay such foreclosure, such as may be applicable in the event of a Member of the Corporation's bankruptcy), there are substantial risks that the exercise of such a remedy will not result in recovery of sufficient funds to pay amounts due on the Series 2007 Bonds.

The Deed of Trust will contain power of sale provisions and will be governed by California law. Under California law, the beneficiary of a deed of trust with power of sale may cause the instrument to be foreclosed either judicially (by a court proceeding) or nonjudicially by a trustee's sale.

California has certain statutory prohibitions that limit the remedies of a beneficiary under a deed of trust, such as the Deed of Trust securing the Series 2007 Bonds. For example, under one statute, a deficiency judgment is barred where the foreclosure is accomplished by means of a nonjudicial trustee's sale. Another statute, commonly known as the "one-action" rule, requires the beneficiary to exhaust the security under the deed of trust by foreclosure and prohibits any personal action against the trustor on the promissory note other than a deficiency judgment following a judicial foreclosure. And yet another statutory provision limits any deficiency judgment obtained by the beneficiary following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of sale, thereby preventing a beneficiary from obtaining a large deficiency judgment against the debtor as a result of low bids at the judicial sale. Under California law, the Deed of Trust is also subject to a one-year statutory right of redemption.

In the event that the Deed of Trust is actually foreclosed, then, in addition to the customary costs and expenses of operating the maintaining the facilities, the party or parties succeeding to the interest of the Corporation in its facilities could be required to bear certain associated costs and expenses, which could include: the cost of complying with federal, state or other laws, ordinances and regulations related to the removal or remediation of certain hazardous or toxic substances; the cost of complying with laws, ordinances and regulations related to health and safety, and the continued use and occupancy of the facilities such as the Americans with Disabilities Act; and costs associated with the potential reconstruction or repair of the facilities in the event of any casualty or condemnation.

In order to realize on its rights under the Indenture or the Deed of Trust, the Trustee will be required to conduct a foreclosure sale of the facilities under the Indenture and the Deed of Trust pursuant to Article 9 of the California Commercial Code. Such a foreclosure sale must be held in a "commercially reasonable" manner, and is subject to subsequent claims that the sale was not "commercially reasonable" and therefore was invalid. Because there is no established market for deeds of trust comparable to the Deed of Trust, little guidance exists for conducting a "commercially reasonable" sale under these circumstances. Therefore, no assurance can be given that a foreclosure sale of the Trustee's interest in the Indenture and the Deed of Trust will not subsequently be held to be invalid and set aside or that a purchaser could be found for such interests.

IN ORDER TO UNDERSTAND IN FULL THE RISKS AND PROCEDURES INVOLVED IN FORECLOSURE OF THE DEED OF TRUST UNDER CALIFORNIA LAW, POTENTIAL OWNERS OF THE SERIES 2007 BONDS ARE ADVISED, AND EXPECTED, TO CONSULT WITH AN EXPERT IN THE FIELD BEFORE PURCHASING THE SERIES 2007 BONDS.

Enforceability of Credit Documents Generally

The realization of rights upon any default will depend upon the exercise of various remedies appearing in the Indenture and the Loan Agreement. These remedies, in certain respects, may require judicial action, which is often subject to discretion and delay. Under existing law, certain of the remedies

specified in the Indenture and the Loan Agreement may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in these documents.

The security interest in the Gross Revenues assigned to the Trustee pursuant to the Indenture may be subordinated to the interests and claims of others or limited by or subject to other claims and interests in several instances. Examples of cases of subordination for prior claims or interests are: (1) statutory liens; (2) rights arising in favor of the United States of America or any agency thereof; (3) present or future prohibitions against assignment in any Federal statutes or regulations; (4) constructive trusts, equitable liens or other rights impressed or conferred by any state or Federal court in the exercise of its equitable jurisdiction; (5) Federal bankruptcy laws that may affect the enforceability of the Indenture or assignments of revenues by the Corporation before or after any effectual institution of bankruptcy proceedings by or against the Corporation; (6) rights of third parties in the property converted to cash and not in the possession of the Trustee or the Authority; and (7) claims that might arise if appropriate continuation statements are not filed in accordance with the Uniform Commercial Code as from time to time in effect. Pursuant to the Indenture, the Corporation is required to enter into control agreements and file continuation statements and other documents necessary to protect and preserve the security interests in certain personal property granted to secure the Series 2007 Bonds. Failure to enter into such agreements or file such statements could subject the rights of the Trustee in such collateral to the claims of intervening creditors.

Enforcement of the remedies under the Indenture and the Loan Agreement may be limited or restricted by state laws concerning the use of assets of charitable corporations and by federal and state laws relating to bankruptcy, fraudulent conveyances, and rights of creditors and by application of general principles of equity applicable to the availability of specific performance, and may be substantially delayed in the event of litigation or statutory remedy procedures. The various legal opinions to be delivered concurrently with the delivery of the Series 2007 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 general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors.

Federal bankruptcy law may have an adverse effect on the ability of the Trustee to enforce its claim to the security in certain property that may be secured under the Indenture. Federal bankruptcy law permits adoption of a reorganization plan, even though it has not been accepted by creditors, if they are provided with the benefit of their original lien or the "indubitable equivalent." In addition, if the bankruptcy court concludes that the Trustee has "adequate protection," it could under certain circumstances (1) substitute other security for the security provided by the Indenture, and (2) subordinate the lien and security interest of the Trustee to (a) claims by person supplying goods and services to the bankrupt after the bankruptcy and (b) the administrative expenses of the bankruptcy proceeding. In the event of the bankruptcy of the Corporation, the amount realized by the Trustee might depend, among other factors, on the bankruptcy court's interpretation of "indubitable equivalent" and "adequate protection" under the then existing circumstances.

Bankruptcy

If the Corporation were to file a petition for relief under Chapter 11 of the Federal Bankruptcy Code, its revenues and certain of its accounts receivable and other property acquired after the filing (and under certain conditions some or all thereof acquired within 120 days prior to the filing) would not be subject to the security interests created under the Loan Agreement or the Indenture. 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 its property. If the bankruptcy court so ordered, the Corporation's property, including its

accounts receivable and proceeds thereof, could be used for the benefit of the Corporation despite the security interest of the Trustee therein, provided that "adequate protection" is given to the lienholder.

In a bankruptcy proceeding, the petitioner could file a plan for the adjustment of its debts which modifies the rights of creditors generally, or any class of creditors, secured or unsecured. The plan, when confirmed by the 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, among other conditions, 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 allowed claims of the class that are voted with respect to the plan are cast 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 in favor of junior creditors.

Uncertainty of Investment Income

The investment earnings of, and accumulations in, certain funds established pursuant to the Indenture have been estimated and are based on assumed interest rates as indicated. While these assumptions are believed to be reasonable in view of the rates of return presently and previously available on the types of securities in which the Trustee is permitted to invest under the Indenture, there can be no assurance that similar interest rates will be available on such securities in the future, nor can there be any assurance that the estimated investment income will actually be realized. Guaranteed investment contracts are being entered into with respect to certain funds held under the Indenture. See "ESTIMATED SOURCES AND USES OF FUNDS" above.

Taxation of Interest on the Series 2007A Bonds

Because the existence and continuation of the excludability of the interest on the Series 2007A Bonds from federal gross income of the owners thereof depends upon events occurring after the date of issuance of the Series 2007A Bonds, the opinion of Bond Counsel described under the caption "TAX MATTERS" herein assumes the compliance by the Corporation with the provisions of the Code and the regulations relating thereto. No opinion is expressed by Bond Counsel with respect to the excludability of the interest on the Series 2007A Bonds in the event of noncompliance with such provisions. The failure of the Corporation to comply with the provisions of the Code and the regulations thereunder may cause the interest on the Series 2007A Bonds to become includable in gross income of the owners thereof as of the date of issuance.

Possible Future Federal Tax Legislation

It is possible that future tax legislation could require that the interest on the Series 2007A Bonds be included in the gross income of the holders for federal income tax purposes, and the value or marketability of the Series 2007A Bonds could be adversely affected by any such legislation. The Series 2007A Bonds are not required to be redeemed in the event that interest on the Series 2007A Bonds becomes includable in gross income for federal income tax purposes or becomes an item of tax preference for purposes of the federal alternative minimum tax applicable to individuals, and there is no provision in the Indenture, the Series 2007A Bonds, or any document related to the issuance thereof, for an increase in the rate of interest payable on the Series 2007A Bonds in the event that interest on the Series 2007A Bonds becomes includable in gross income for federal income tax purposes or becomes an item of tax preference for purposes of the federal alternative minimum tax applicable to individuals. See "TAX MATTERS" herein.

Internal Revenue Code Compliance

The IRS has determined that the Corporation is a tax-exempt organization described in Section 501(c)(3) of the Code, and exempt from taxation under Section 501(a) of the Code. As a tax-exempt, charitable organization, the Corporation and its operations are subject to various requirements specified by the Code and the regulations promulgated thereunder. Compliance with those requirements is necessary to maintain the tax-exempt status of the Corporation.

If the Corporation should fail to meet any of the requirements specified by the Code and regulations thereunder as necessary to maintain its tax-exempt status, action could be initiated by Federal or state tax authorities to attempt to subject the Corporation, its property, and its revenues to taxation. If successful, such action could cause interest on the Series 2007A Bonds to be taxable to the holders thereof. Under the Code as amended to the date of this Official Statement, the failure of the Corporation to maintain its tax-exempt status could constitute a default under the Loan Agreement. The Corporation has covenanted in the Loan Agreement that it will not take or omit to take any action, if such act or omission would cause the interest on the Series 2007A Bonds to be includable in the gross income of any holders of the Series 2007A Bonds for Federal income tax purposes. However, there is no provision in the Indenture, or any other document related to the issuance of the bonds, which requires that the Series 2007A Bonds be redeemed or accelerated in the event that the interest on the Series 2007A Bonds becomes includable in gross income of the holders thereof for Federal income tax purposes.

Loss of tax-exempt status by the Corporation could result in loss of tax-exemption of the Series 2007A Bonds and or other tax-exempt debt issued for the benefit of the Corporation, and defaults in covenants regarding the Series 2007A 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.

The maintenance by the Corporation of tax-exempt status depends, in part, upon the maintenance of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation primarily for charitable purposes. The IRS has announced that it intends to closely scrutinize transactions between nonprofit corporations and for-profit entities, including transactions relating to the Anti-Kickback Law, and has issued revised audit guidelines for tax-exempt health care entities. Although specific activities of health care entities have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the Corporation conducts large-scale and diverse operations involving private parties, there can be no assurance that certain of the Corporation's transactions would not be challenged by the IRS.

On July 31, 1996, the Federal Taxpayers Bill of Rights 2 (the "Taxpayers Act") was signed into law. The Taxpayers Act provides the IRS with an "intermediate" tax enforcement tool to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Prior to this "intermediate sanctions" law, the IRS could punish such violations only through revocation of an organization's tax-exempt status.

Intermediate sanctions may now be imposed where there is an "excess benefit transaction," generally defined to include a disqualified person (i.e., an insider) engaging in an economic transaction with a tax-exempt organization at other than fair market value.

A disqualified person who benefits from an excess benefit transaction will be required to restore the excess benefit to the exempt organization and will be subject to a "first tier" penalty excise tax equal to 25% of the amount of the excess benefit. Organizational managers (e.g., directors) who participate in

an excess benefit transaction knowing it to be improper are subject to a "first-tier" penalty excise tax of 10% of the amount of the excess benefit, subject to a maximum penalty of $10,000. A "second tier" penalty excise tax of 200% of the amount of the excess benefit may be' imposed on the disqualified person (but not the organizational manager) if the excess benefit transaction is not corrected in a specified time period. The intermediate sanctions law is effective retroactively to September 14, 1995.

Property Taxes

Local property tax assessors take differing positions as to whether or not facilities such as those owned by the Corporation are exempt from property taxation. Moreover, budgetary pressures on local government may lead to increasing pressures for state legislation to amend the property tax statutes to subject to taxation various properties owned by nonprofit organizations or to condition exemption from taxation upon the performance of specific types or level of charitable activity. There can be no assurance as to whether the facilities and the Corporation's properties will be exempt from property taxation.

Interest Rate Swap and Other Hedge Risk

Any interest rate swap or other hedge agreement to which the Corporation is a party may, at any time, have a negative value to the Corporation. If either a swap or other hedge counterparty or the Corporation terminates such an agreement when the agreement has a negative value to the Corporation, the Corporation would be obligated to make a termination payment to the counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to the financial condition of the Corporation. A counterparty generally may only terminate such an agreement upon the occurrence of defined termination events such as nonpayment by the Corporation, a bankruptcy type event, cross default to specified indebtedness or other swaps, other breaches of covenants in such agreements or the withdrawal of the ratings assigned to the Corporation's indebtedness or a downgrade of such ratings below specified levels.

Pursuant to the Swap Agreements, each Swap Counterparty is obligated to make variable rate payments, which payments may be more or less than the floating rate the Corporation is required to make with respect to the Series 2007 Bonds, except for the Swap Agreement related to the Series 2007A Bonds from the period of May 2, 2007 to August 1, 2008. The Corporation is being compensated for this basis risk by paying a fixed rate which is lower than a comparable fixed bond rate. No determination can be made at this time as to the potential exposure to the Corporation relating to the difference in the two variable rate cash flows.

The Swap Agreements do not require the Corporation to provide additional security for its obligations for any reason, including upon a downgrade of the rating assigned to the long-term Indebtedness issued on behalf of the Corporation. The Swap Agreements do require the Counterparties to provide additional security for their obligations upon a downgrade below a predefined level of the rating assigned to the long-term indebtedness of each Counterparty.

Other Considerations

Labor Relations. Nonprofit nursing homes and their employees came under the jurisdiction of the National Labor Relations Board in 1974. At the present time none of the employees of the Corporation is represented by a labor organization. Unionization of employees or a shortage of qualified professional personnel could cause an increase in payroll costs beyond those projected.

Reduced Demand. The reduced need for services arising from future scientific advances, preventive medicine, home healthcare services, alternative delivery systems, changes in demographics, or

a decline in the population or the economic condition of the service area of the Corporation's nursing care, assisted living or residential facilities may adversely affect the Corporation's revenues.

Insurance. In recent years the number of malpractice suits and the dollar amount of patient damage recoveries have been increasing nationwide, resulting in substantial increases in malpractice insurance premiums. Cost and availability of any insurance, such as malpractice, fire, automobile, and general comprehensive liability, that nursing care and residential facilities of a similar size and type generally carry may change unexpectedly, which could adversely affect the Corporation's operations.

Changes in Tax Policy. Taxing authorities in certain jurisdictions have sought to impose or increase taxes related to the property and operations of nonprofit organizations, including nursing homes, assisted living facilities and residential rental housing, particularly where such authorities are dissatisfied with the amount of service provided to indigents. The Corporation believes its services to indigents are adequate, but it is possible that future administrative or judicial proceedings will have the effect of requiring the Corporation to increase its services to indigent patients to retain its tax-exempt status, or to pay additional taxes, either of which would have an adverse effect on the revenues of the Corporation.

Cost Increases. Cost increases without corresponding increases in revenue would result from, among other factors, increases in the salaries, wages and fringe benefits of employees, increases in costs associated with advances in medical technology or with inflation and future legislation which would prevent or limit the ability of the Corporation to increase revenues from operating its facilities or providing services. At present, charitable organizations such as the Corporation do not pay real estate taxes on certain real property used in connection with their exempt purposes, and are not required to pay fees for municipal services in respect of such real property unless the fees represent user fees of general application. It is possible that California will pass legislation requiring certain tax exempt organizations, such as the Corporation, to pay certain fees for municipal services, which may in turn increase the Corporation's operating costs. Furthermore, the Code places certain limitations on the ability to finance certain projects, invest bond proceeds and advance refund prior tax-exempt bond issues. These limitations may increase the interest costs for future borrowings by the Corporation.

Governmental Approvals. The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care could adversely affect the operations of the Corporation.

Natural Disasters. The occurrence of natural disasters, including earthquakes, floods and tornadoes, may damage some or all of the facilities operated by the Corporation or interrupt utility service to some or all of the facilities, otherwise impair the operations of some or all of the facilities, or the generation of revenues from some or all of the facilities. The Corporation may not be able to obtain insurance against all such hazards at commercially reasonable rates.

Adverse Relations. Adverse community relations or publicity involving some or all of the facilities owned or managed by the Corporation could affect the demand for the services provided by such facilities, or the generation of revenues from some or all of the facilities.

Other Legislation. The Corporation's facilities are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, operations of facilities and properties owned or operated by nursing facilities. Among the types of regulatory requirements faced by nursing facilities are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos; requirements related to 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 nursing facility or

hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements. In their role as owners and operators of properties or facilities, the Corporation and its facilities may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off of the property. Typical operations of skilled nursing, assisted living and residential facilities include, to some extent, and in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, operations of such facilities are 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 or increase their cost or both; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other government 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.

Environmental Matters. Health care facilities, such as those of the Corporation, are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, operations of facilities and properties owned or operated by such facilities. Among the types of regulatory requirements faced by such facilities are: 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 such facility or hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements. In their role as owners and operators of properties or facilities, such facilities may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off of the property. Typical operations of such facilities, include to some extent in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, operations of such facilities are 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 or increase their cost or both; may result in legal liability, damages, injunctions or fines, or may trigger investigations, administrative proceedings, penalties or other government 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.

Bond Ratings

There is no assurance that the ratings assigned to the Series 2007 Bonds will not be lowered or withdrawn at any time, the effect of which could be to adversely affect the market price for and marketability of the Series 2007 Bonds.

CONTINUING DISCLOSURE

While the Series 2007 Bonds are in a Daily Mode or a Weekly Mode, the Series 2007 Bonds are exempt from the requirements of Rule 15c2-12 (the "Rule") promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended. Upon the conversion of a Series of the Series 2007 Bonds to the Auction Mode, the Corporation has agreed in the Loan Agreement to comply with the continuing disclosure requirements of the Rule with respect to such Series.

LITIGATION

The Authority

There is no litigation that has been served on the Authority or, to the best knowledge of the Authority, that is otherwise pending or threatened seeking to restrain or enjoin the issuance, sale, execution or delivery of the Series 2007 Bonds, or in any way contesting or affecting the validity of the Series 2007 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 Series 2007 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 Series 2007 Bonds.

Corporation

Management of the Corporation has advised that there is no litigation or proceeding pending or threatened against the Corporation except litigation or proceedings in which the estimated probable ultimate recoveries and the costs and expenses of defense, in the opinion of management for the Corporation, (i) will be entirely within applicable commercial insurance policy limits (subject to applicable deductibles) or are not in excess of the total available reserves held under applicable self-insurance programs, or (ii) will not have a material adverse effect on the operation or financial condition of the Corporation as a whole. No litigation or proceedings are pending or, to the knowledge of the Corporation, threatened which in any manner question the right of the Corporation to enter into the transactions described herein.

LEGAL MATTERS

Certain legal matters incidental to the authorization, issuance and sale by the Authority of the Series 2007 Bonds will be subject to the approving opinion of Holland & Knight LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Nixon Peabody LLP, San Francisco, California; for the Corporation by its counsel, Procopio, Cory, Hargreaves & Savitch LLP, San Diego, California; for the Trustee by its counsel, Dorsey and Whitney LLP, Irvine, California; for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Sacramento, California, for the Initial Liquidity Facility Provider with respect to the Initial Liquidity Facility by its counsel, Ballard Spahr Andrews & Ingersoll, LLP, Philadelphia, Pennsylvania, and its Belgian counsel, Linklaters De Bandt, Brussels, Belgium; and for the Bond Insurer by its Senior Vice President and Deputy General Counsel.

TAX MATTERS

Series 2007A Bonds

In the opinion of Holland & Knight LLP, Bond Counsel, under existing law, the interest on the Series 2007A Bonds is exempt from present State of California personal income taxes. In addition, in the opinion of Bond Counsel, under existing law, interest on the Series 2007A Bonds is excludable from gross income for federal income tax purposes. The opinion of Bond Counsel is rendered in reliance upon certain schedules provided by Cain Brothers and verified as to mathematical accuracy by Grant Thornton, LLP.

The Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Series 2007A Bonds in order for the interest thereon to be and remain excludable from gross income for

federal income tax purposes. Examples include: the requirement that the Corporation maintain its status as an organization exempt from federal income taxation by reason of being described in Section 501(c)(3) of the Code; the requirement that, unless an exception applies, the Authority rebate certain excess earnings on proceeds and amounts treated as proceeds of the Series 2007A Bonds to the United States Treasury; restrictions on the investment of such proceeds and other amounts; and restrictions on the ownership and use of any facilities financed or refinanced with the proceeds of the Series 2007A Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the Authority and the Corporation subsequent to the issuance of the Series 2007A Bonds to maintain the exclusion of interest on the Series 2007A Bonds from gross income for federal income tax purposes. Failure to comply with such requirements may cause the inclusion of interest on the Series 2007A Bonds in the gross income of the owners thereof for federal income tax purposes, retroactive to the date of issuance of the Series 2007A Bonds. The Authority and the Corporation have covenanted in the Bond Indenture and the Loan Agreement to comply with each such requirement of the Code that must be satisfied subsequent to the issuance of the Series 2007A Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Bond Counsel is subject to the condition that the Authority and the Corporation comply with all such requirements. Bond Counsel has not been retained to monitor compliance with the described post-issuance tax requirements subsequent to the issuance of the Series 2007A Bonds.

Notwithstanding the foregoing, Bond Counsel expresses no opinion as to whether a change in Mode will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2007A Bonds. The Bond Indenture requires an opinion of Bond Counsel with regard to a change in Mode before any such change occurs.

Alternative Minimum Tax. An alternative minimum tax is imposed by the Code on both corporations (as defined for federal income tax purposes) and on taxpayers other than corporations. Interest on the Series 2007A Bonds will not be treated as an item of tax preference for purposes of the alternative minimum tax. Interest on the Series 2007A Bonds will therefore not be included in the alternative minimum taxable income of taxpayers other than corporations. Interest on the Series 2007A Bonds received by a corporate Bondholder will, however, be included in such a Bondholder's adjusted current earnings. A corporation's alternative minimum taxable income will be increased by seventy-five percent (75%) of the corporation's adjusted current earnings not otherwise included in its alternative minimum taxable income. The rate of the alternative minimum tax imposed on corporations is twenty percent (20%).

Reference is made to the proposed form of opinion of Bond Counsel as to the Series 2007A Bonds attached hereto as APPENDIX F for the complete text thereof.

Other Tax Consequences. Prospective purchasers of the Series 2007A Bonds should be aware that ownership of the Series 2007A Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series 2007A Bonds. Prospective purchasers of the Series 2007A Bonds should also be aware that ownership of the Series 2007A Bonds may result in adverse tax consequences under the laws of various states. Bond Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with respect to the Series 2007A Bonds. Further, Bond Counsel has expressed no opinion regarding the state tax consequences that may arise with respect to the Series 2007A Bonds other than the opinion described above relating to present State of California personal income taxes. Prospective purchasers of

the Series 2007A Bonds should consult their tax advisors as to the collateral federal income tax and state tax consequences to them of owning the Series 2007A Bonds.

Information Reporting and Backup Withholding. Interest paid on tax-exempt bonds, such as the Series 2007A Bonds, is subject to information reporting to the Internal Revenue Service in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the 2007A Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate holders of Series 2007A Bonds, under certain circumstances, to "backup withholding" at (i) the fourth lowest rate of tax applicable under Section 1(c) of the Code (i.e., a rate applicable to unmarried individuals) for taxable years beginning on or before December 31, 2010; and (ii) the rate of 31% for taxable years beginning after December 31, 2010, with respect to payments on the Series 2007A Bonds and proceeds from the sale of Series 2007A Bonds. Any amounts so withheld would be refunded or allowed as a credit against the federal income tax of such holder of Series 2007A Bonds. This withholding generally applies if the holder of Series 2007A Bonds (i) fails to furnish the Trustee such holder's social security number or other taxpayer identification number ("TIN"), (ii) furnished the Trustee an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Trustee or such holder's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such holder is not subject to backup withholding.

Series 2007B Bonds

The following is a general discussion of the anticipated federal income tax consequences from the purchase, ownership, and disposition of the Series 2007B Bonds. The discussion below does not purport to address all aspects of federal taxation that may be relevant to particular investors in light of their individual circumstances, or to certain types of investors subject to special treatment under the federal income tax laws. There can be no assurance that contrary positions to those positions expressed below will not be taken by the Internal Revenue Service. Prospective investors are advised to consult their own tax advisors regarding the federal income tax consequences of the purchase, ownership or disposition of the Series 2007B Bonds, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

In the opinion of Bond Counsel, under existing law, stated interest on the Series 2007B Bonds will be treated as interest income for federal income tax purposes. ALSO, IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE SERIES 2007B BONDS IS NOT EXCLUDED FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES. Further, in the opinion of Bond Counsel, under existing law, the interest on the Series 2007A Bonds is exempt from present State of California personal income taxes.

Reference is made to the proposed form of the opinion of Bond Counsel as to the Series 2007B Bonds included herein as APPENDIX F for the complete text thereof.

Tax Treatment of Foreign Investors. Under Sections 871 and 881 of the Code, interest income with respect to the Series 2007B Bonds held by non-resident alien individuals, foreign corporations or other non-United States persons ("Non-residents") may be subject to a 30% United States withholding tax unless that tax is reduced or eliminated pursuant to an applicable tax treaty. That withholding tax will generally not be imposed, however, if the Trustee (or other person who would otherwise be required to withhold tax from such payments) is provided with an appropriate statement identifying the beneficial owner of the Series 2007B Bonds and stating, among other things, that the beneficial owner is a Non-resident. The withholding tax will also not apply if interest on the Series 2007B Bonds is effectively

connected with a United States business conducted by the Non-resident. Foreign investors should consult their tax advisors regarding potential imposition of the 30% withholding tax.

Backup Withholding. Under the Code, a non-corporate holder of Series 2007B Bonds may, under certain circumstances, be subject to "backup withholding" at (i) the fourth lowest rate of tax applicable under Section 1(c) of the Code (i.e., a rate applicable to unmarried individuals) for taxable years beginning on or before December 31, 2010; and (ii) the rate of 31% for taxable years beginning after December 31, 2010, with respect to payments on the Series 2007B Bonds and proceeds from the sale of Series 2007B Bonds. Any amounts so withheld would be refunded or allowed as a credit against the federal income tax of such holder of Series 2007B Bonds. This withholding generally applies if the holder of Series 2007B Bonds (i) fails to furnish the Trustee such holder's social security number or other taxpayer identification number ("TIN"), (ii) furnished the Trustee an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the Trustee or such holder's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such holder is not subject to backup withholding. Holders of Series 2007B Bonds should consult their own tax advisors as to their qualifications for exemption from backup withholding and the procedures for obtaining the exemption.

Sales, Exchanges, and Transfers. If a holder of Series 2007B Bonds sells or otherwise transfers a Series 2007B Bond, taxable gain or loss may result, as in the case with any sale or other transfer of an investment.

RATINGS

Moody's Investors Service, Inc. is expected to assign to the Series 2007 Bonds the rating of "Aa3/VMIG 1". The long-term rating will be based upon the issuance by the Bond Insurer of the Policy simultaneously with delivery of the Series 2007 Bonds, while the short-term rating will be based upon the provision by the Initial Liquidity Facility Provider of the Initial Liquidity Facility simultaneously with the delivery of the Series 2007 Bonds. The rating assigned to the Series 2007 Bonds reflects only the view of the rating agency, and an explanation of the significance of such ratings may be obtained only from the rating agency.

Generally, rating agencies base their ratings on the information and materials furnished and on investigations, studies and assumptions by the rating agencies. No assurance can be given that a particular rating will be maintained for any given period of time or will not be revised or withdrawn entirely by the rating agency, if, in its judgment, circumstances warrant. Any such revision or withdrawal of the rating may have an adverse effect on the market price or marketability of the Series 2007 Bonds. The Underwriter, the Bond Insurer, the Authority and the Corporation have undertaken no responsibility to bring to the attention of the holders of the Series 2007 Bonds any proposed revision or withdrawal of the ratings of the Series 2007 Bonds or to oppose any such proposed revision or withdrawal.

VERIFICATION OF MATHEMATICAL COMPUTATION

The accuracy of the mathematical computations of the adequacy of the maturing principal of and interest earned on the escrow securities, together with other available funds, held in the Escrow Fund to provide for the payment of the Refunded Bonds will be examined by Grant Thornton LLP (the "Verification Agent"). The computations will be based upon information and assumptions supplied by the Underwriter on behalf of the Authority. The Verification Agent has restricted its procedures to examining the arithmetical accuracy of the computations and has not evaluated or audited the assumptions or information used in the computations.

FINANCIAL STATEMENTS

The consolidated financial statements of Case de las Campanas, Inc. included in APPENDIX B to this Official Statement as of July 31, 2005 and 2006, and for the fiscal years then ended, have been audited by Kellogg & Andelson Accountancy Corporation, independent auditors, as stated in their report with respect thereto.

UNDERWRITING

The Series 2007 Bonds are being purchased by Cain Brothers, as Underwriter. Cain Brothers has agreed to purchase the Series 2007 Bonds at an aggregate purchase price of $45,248,428.75, which reflects $396,571.25 of Underwriter's discount, pursuant to an agreement entered into by and among the Authority, the Corporation and the Underwriter. The bond purchase agreement provides that the Underwriter will purchase all the Series 2007 Bonds, if any are purchased, and requires the Corporation to indemnify the Underwriter and the Authority against losses, claims and liabilities arising out of any untrue statement of a material fact contained in this Official Statement or the omission herefrom of any material fact in connection with the transactions contemplated by this Official Statement.

MISCELLANEOUS

The references herein to the Act, the Indenture, the Loan Agreement, and the Policy are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and for full and complete statements of the provisions thereof reference is made to the Act, the Indenture, the Loan Agreement, and the Policy in their entirety. Copies of drafts of such documents are on file at the offices of the Authority, and following delivery of the Series 2007 Bonds, executed copies will be on file at the office of the Trustee. All estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

It is anticipated that CUSIP identification numbers will be printed on the Series 2007 Bonds, but neither the failure to print such numbers nor any error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any Series 2007 Bonds.

The attached Appendices are integral parts of this Official Statement and must be read together with all of the foregoing statements.

The Authority is a conduit issuer and has not prepared or participated in the preparation of this Official Statement and is not responsible for the statements made herein except for the information under the captions "THE AUTHORITY" and "LITIGATION—The Authority" and the Authority will not participate in or be responsible for the offering, sale, distribution, or remarketing of the Series 2007 Bonds.

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

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS

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

CASA DE LAS CAMPANAS, INC.

By: /s/ James J. Beeman
Chairman of the Finance Committee
of the Board of Directors

By: /s/ Jill Sorenson
Executive Director

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APPENDIX A

INFORMATION CONCERNING THE CORPORATION

The information contained in this
Appendix A has been obtained from Casa de las Campanas, Inc.

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HISTORY AND BACKGROUND

Casa de las Campanas, Inc. (the "Corporation") is a California nonprofit public benefit corporation and is exempt from federal income taxes as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986 (the "Code"). The Corporation was originally organized in 1989 to provide multi-level housing, non-acute health care and related services to the elderly.

The Corporation owns a continuing care retirement facility which includes 394 units of independent living (the "Retirement Center"), an 18-unit assisted living unit with a capacity of 26 beds (the "Assisted Living Unit"), an 18-unit dementia/assisted living unit with a capacity of 27 beds (the "Dementia Unit"), and an adjacent 99-bed skilled nursing facility (the "Skilled Nursing Facility"), located in the Rancho Bernardo area of northern San Diego County, 25 miles from downtown San Diego, California. The Retirement Center, including the Assisted Living Unit and the Dementia Unit, and Skilled Nursing Facility are referred to herein as the "Facilities."

FACILITIES AND SERVICES

Description of the Facilities

The Facilities are located on an approximately 22 acre site owned by the Corporation. The Retirement Center and Skilled Nursing Facility were constructed in two phases, with 242 residential units, the Assisted Living Unit and the Skilled Nursing Facility constructed in the first phase ("Phase I") and the remaining residential units constructed in the second phase ("Phase II"). Occupancy of the Phase I residential units began in July 1988, and occupancy of the Phase II residential units began in July 1989. The Skilled Nursing Facility was completed and licensed to operate in February 1989. The Dementia Unit was completed and licensed to operate in December 2005.

The Retirement Center consists of residential buildings that are provided with equipment and features designed for geriatric safety. In addition to the residential unit portion of the Retirement Center, the Assisted Living Unit and the Dementia Unit, the buildings house a salon, library, billiard room, card room, on-site ATM machine, a convenience store, and common areas for dining, fitness, social, computer, arts and crafts, and other activities. Outdoors, there are several landscaped courtyards for recreational activities, including gardening, as well as a dog run, two outdoor swimming pools and reserved parking. All residential units include carpeting, full kitchens with major appliances, emergency call systems, smoke detectors, bathroom grab bars and storage space.

The Assisted Living Unit consists of an 18,478 square foot facility with a total of 18 units, including 12 private rooms and eight semi-private rooms. The Assisted Living facilities are located within the same building as Retirement Center units, but have additional health support services and a separate dining room. Residents of the Assisted Living Unit benefit from a passive monitoring system to assure their safety, a social activity program seven days a week, and staffing at a higher level to monitor and address cognitive issues and communicating changes in condition to their responsible party and physician.

The Dementia Unit consists of a 13,500 square foot stand-alone facility. Residents residing at this level of care benefit from a social model of programming designed to meet the unique needs of residents with mild to moderate stages of cognitive impairment.

The Skilled Nursing Facility is located in a single-story structure and is licensed for 96 semi-private skilled nursing beds and 3 private skilled nursing beds. The Skilled Nursing Facility also

includes a central landscaped courtyard, a large fish tank, an activity room, two dining rooms, administrative offices, an employee lounge, and two nursing stations.

In 2003, the Corporation implemented a "Keep Casa Current" capital improvement program for common areas and residential units. This program was developed through comprehensive surveys and focus groups of residents at the Facilities seeking their input on making capital upgrades to the Facilities as well as improving resident services, particularly in the Assisted Living Unit and the Skilled Nursing Facility. The "Keep Casa Current" program involved residential apartment upgrades such as new cabinets, countertops in the kitchen and bath, new closet doors, carpet, paint and appliances. Other construction projects to the Facilities have included major roofing repairs and replacements, central HVAC, Nurse Call System, heat pump replacements, balcony and stucco repair, new lobby, ADA access upgrades, sidewalks, new employee parking lot, new day spa and training room, new carpet, interior remodel of the Skilled Nursing Facility, new elevator, new building for Dementia Unit, new cooling tower, new park and landscape, remodel dining rooms, new doors and hardware, and energy management system.

A portion of the proceeds of the Bonds will be used to reimburse the Corporation for the costs of the Dementia Unit and certain of these improvements to the Facilities.

Management of the Facilities

The Facilities are managed by Life Care Services LLC ("LCS") under a management agreement between LCS and the Corporation. See "MANAGEMENT AGENT" herein.

Description of the Services Provided

Services for residents generally include one or more meals per day, building and grounds maintenance, custodial service, weekly flat laundry service, scheduled transportation service, all utilities except telephone and cable television, personal care services, assisted living services, unlimited nursing home care in the Skilled Nursing Facility at no additional cost other than additional daily meals and certain other outlined costs, tray service, planned activities, bi-weekly housekeeping services, parking, use of all common and activity areas, an emergency call system, smoke detectors and security.

Residential Living. Residents receive accommodations that include building and grounds maintenance and security; 24-hour emergency call system; utilities that include water, trash collection, central heating, electricity and gas; basic television service; basic furnishings that include draperies and wall-to-wall carpeting; up to three nutritionally balanced meals per day; weekly housekeeping and linen services; storage space; parking; recreation; fitness, cultural, educational, spiritual, and social programs; catering services; chaplain and worship services; and scheduled transportation services. Assistance with self-administered medications, nutrition services, wellness clinical services and care of minor ailments are also provided. Additional optional services are available.

Assisted Living. Residents receive the residential living services identified above plus additional assistance with general activities of daily living such as bathing, grooming, dressing, feeding, ambulation and assistance with storage and distribution of medications. Licensed nurses, certified nursing assistants or other trained caregivers are available on a 24-hour basis to monitor and assist residents.

Dementia. Residents receive the residential living services identified above plus additional assistance with a social activity program seven days a week and staffing at a higher level to monitor and address cognitive issues and communicate changes in condition to their responsible party and physician. In addition, general activities of daily living such as bathing, grooming, dressing, feeding, ambulation and

assistance with storage and distribution of medications. Licensed nurses, certified nursing assistants or other trained caregivers are available on a 24 hour basis to monitor and assist residents.

Skilled Nursing. Residents receive 24-hour per day licensed nursing care that includes care planning, skin and wound care, incontinence care and coordination of diagnostic and therapeutic services, all of which are performed under the supervision of the resident's physician. Rehabilitation services, social services and specialized dietary care are provided on an ongoing basis.

Future Residents. The "Future Resident's Club" is designed for future residents of the Facilities who are automatically "enrolled" in the club when they join the waiting list. The benefits to future residents include one meal per month, invitations to quarterly on-site events (such as a wine and cheese social), and the eligibility to attend resident activity events on a space available basis.

RESIDENCE AGREEMENTS

The continuing care contracts that the Corporation uses at the Facilities (the "Residence Agreements") have been approved by the California Department of Social Services ("Social Services") as complying with all relevant statutory and regulatory requirements.

Current Resident Agreements

The Retirement Center will generally accept as residents persons at least 62 years of age who are able to care for themselves as outlined in the Residence Agreements, and who have financial resources sufficient to pay the entrance fee, monthly service fee and other daily living expenses. It is a contractual requirement of the Residence Agreements that a resident not be displaced from the Facilities should such resident be incapable of paying the monthly service fees. Under the terms of the Residence Agreements, the resident agrees to pay an initial entrance fee and a monthly service fee that entitle the resident to occupy a residential unit for lifetime use and to receive certain services (including health care services), subject to certain conditions outlined in the Residence Agreements. Services provided under the Residence Agreements are as described under "FACILITIES AND SERVICES – Description of Services Provided."

Entrance fees range from $147,000 for a studio unit to $918,500 for a two-bedroom premium view unit. Monthly service fees range from $1,766 for a studio unit up to $4,768 for a two-bedroom premium view unit. Management believes, based on a marketing analysis, that the entrance fees and monthly service fees charged by the Corporation are competitive with entrance fees and monthly service fees charged by other continuing care retirement facilities.

The Corporation requires, in accordance with a deposit subscription agreement, a deposit of 20% of the entrance fee before a residential unit is considered reserved. If the deposit subscription agreement is terminated by the prospective resident before such resident moves into the Facilities, a refund of the entire deposit is made, without interest, less a processing fee of $1,000, within 30 days of termination. If the prospective resident dies or is not accepted for residency, the entire deposit, without interest, will be refunded within 30 days.

Each prospective resident enters into a Residence Agreement prior to occupancy of the residential unit. Upon entering into the Residence Agreement, the balance of the entrance fee is paid, the deposit subscription agreement is cancelled and a 90-day cancellation period commences. During the cancellation period, the resident or the Corporation may cancel the Residence Agreement without cause. Upon cancellation of the Residence Agreement or death during the cancellation period all funds deposited by the resident, including interest earned during the deposit period, will be refunded less (i) a $1,000

processing fee, (ii) the costs of special modifications of features made to the residential unit as requested by the resident and (iii) the reasonable value of any services or items provided by the Corporation and not included in the Residence Agreement.

Prospective residents currently have two forms of Residence Agreements from which to choose, the Standard Plan and 75% Refundable Plan. Under the Standard Plan, if a resident assumes occupancy in the Retirement Center and his or her Residence Agreement is cancelled by the resident for any reason other than death of the resident after expiration of the 90-day cancellation period, the resident will receive a refund of the entrance fee less the sum of (i) a 10% cancellation fee, (ii) 1% per month of occupancy, and (iii) any accrued and unpaid expenses, including without limitation any unreimbursed expenses incurred for the resident's care at the Skilled Nursing Facility. The resident must give 90 days' notice to cancel a contract, and any refund is required to be paid within 14 days after the unit is vacated. After seven and one-half years (90 months) of occupancy, no refund will be made under the Standard Plan. Under the Standard Plan, no refund is made to a resident's estate if the Residence Agreement is cancelled because of death after expiration of the 90-day cancellation period. Currently, approximately 437 or 98% of all Residence Agreements are under the Standard Plan.

The 75% Refundable Plan offers a refund at the time of a resident's death of seventy-five percent (75%) of the entrance fee paid. Refund provisions based upon cancellation of the agreement by the resident are the same as in the other contracts. Currently, only three residents are under the 75% Refundable Plan.

If, in consultation with a resident's family, physician and the facility administrator, it is determined that a resident is unable to care for him or herself within the range of services provided by the non-assisted living portion of the Retirement Center or becomes a danger to him or herself or others, as defined by the regulations promulgated by Social Services, such resident will be transferred to either the Assisted Living Unit, the Dementia Unit or the Skilled Nursing Facility. If insufficient beds are available in the Skilled Nursing Facility, the Corporation will arrange to place the resident in another facility in San Diego County at no additional cost to the resident until space becomes available in the Skilled Nursing Facility. When transferred on a permanent basis to either the Assisted Living Unit, the Dementia Unit or the Skilled Nursing Facility, and assuming there is no other party (such as a spouse) to the Residence Agreement, the resident's unit will become available to a new resident. Should the resident recover sufficiently at a later date to resume unassisted living, the Corporation is required to provide a like or similar unit to the resident.

Legacy Resident Agreements

Between 1994 and 1996, residents had the option of a "Standard Modified Plan Contract." Under the Standard-Modified Plan Contract, refunds are made as disclosed in the discussion of the Standard Plan, with the exception that a resident's estate receives the refund upon death of a resident during the initial seven and one-half years (90 months) of residency. Currently, only two residents are under the Standard-Modified Plan.

Between 1988 and 1992, residents had the option of a "94 Plan." This contract called for 94% of the entrance fee to be refunded upon the resident's death. Although no longer available to new residents, one resident is currently under the 94 Plan.

Between 1988 and 2003, residents had the option of a 80% Refundable Plan. This contract called for 80% of the entrance fee to be refunded upon the resident's death. Although no longer available to new residents, three residents are currently under the 80% Refundable Plan.

Between 1988 and 1996, residents had the option of a 50% Refundable Plan. This contract called for 50% of the entrance fee to be refunded upon the resident's death. Although no longer available to new residents, one resident is currently under the 50% Refundable Plan.

The Corporation currently has one unit which is occupied under a continuing care rental agreement. The resident of this unit, who pays a continuing care rental fee, including a monthly service fee and a monthly continuing care fee, receive all the services of residents who pay an entrance fee and a monthly service fee including unlimited nursing care. The Corporation no longer offers this continuing care rental program. As these rental units become available due to attrition, they will be filled by residents paying an entrance fee.

HISTORICAL UTILIZATION

The following table provides occupancy statistics for the Facilities.

	Fiscal Year Ended July 31,			Six Months Ended
	2004	2005	2006	January 31, 2007
Retirement Center:[1]				
Average available units	421	421	421	421
Average occupied units	409	412	406	405
Average occupancy	97.1%	97.9%	96.5%	96.4%
Dementia Unit: [2]				
Average available units	--	--	15.75	27
Average occupied units	--	--	12.6	14.3
Average occupancy	--	--	80%	53.0%
Skilled Nursing Facility:				
Licensed Beds	99	99	99	99
Available Beds	99	99	99	99
Occupied Beds	85.3	83.4	76.7	75
Average Occupancy[3]	86.2%	84.2%	77.5%	75.8%

(1) Includes the Assisted Living Unit beds available billed at current standard rates.
(2) Commenced operations in December 2005.
(3) Based on available units/beds.

Source: The Corporation

LICENSURE, ACCREDITATION AND MEMBERSHIPS

The Retirement Center, including the Assisted Living Unit and the Dementia Unit, are licensed by the State of California Department of Social Services ("Social Services") as a residential care facility for the elderly ("RCFE"). The basis for this licensure is Social Services' determination that the Retirement Center, including the Assisted Living Unit and the Dementia Unit, has complied with specific requirements of California law related to RCFEs. The Skilled Nursing Facility is licensed by the California Department of Health Services ("Health Services") as a skilled nursing facility. The basis for this licensure is Health Services' determination that the Skilled Nursing Facility has complied with California laws relating to skilled nursing facilities.

The Corporation has received a certificate of authority ("COA") issued by Social Services, Continuing Care Contracts Branch. A COA permits the Corporation to enter into continuing care contracts, defined by the State of California as an express or implied agreement between a person 60 years of age or older and the provider where, in exchange for payment of an entrance fee and/or periodic charges, a promise is made to provide one or more elements of care at a facility for the duration of the resident's life or a period longer than one year. The Corporation must submit annual audited financial statements, reserve reports and key indicators reports to Social Services to maintain its COA. In addition, every fifth year, an actuarial report must be completed to ensure adequate reserves. For more information on COAs, see "THE RETIREMENT INDUSTRY" in the forepart of this Official Statement.

The Corporation is a member of the Aging Services of California and the American Association of Homes and Services for the Aging. In addition, the Corporation is accredited by CARF (Commission on Accreditation of Rehabilitation Facilities).

MARKET AND COMPETITION

Approximately 61% of the Corporation's current residents originated from the area within a ten-mile radius of the Facilities, and approximately 80% lived within San Diego or Orange County. The Corporation identifies five facilities as its primary competitors. Competition may increase in the future with the construction of new facilities or the expansion of existing facilities. The following table sets forth certain relevant information regarding the Corporation's Facilities and those six competing facilities. The information in the table below was gathered by the Corporation through a telephone survey and sources that the Corporation believes to be accurate. The Corporation takes no responsibility for the accuracy or completeness of the information contained in the table below.

Name and Location[1] of Facility	Distance from Casa de las Campanas	Type of Facility	2006 Occupancy[2]
Casa de las Campanas, Rancho Bernardo, CA	--	Continuing Care	96%
Redwood Terrace, Escondido, CA	4 miles	Continuing Care	95
Classic Residence by Hyatt at La Jolla Village, La Jolla, CA	19 miles	Continuing Care	100
La Costa Glen, Carlsbad, CA	20 miles	Continuing Care	100
Carlsbad-by-the Sea, Carlsbad, CA	24 miles	Continuing Care	99
White Sands of La Jolla, La Jolla, CA	26 miles	Continuing Care	96

(1) Although the Remington Club in Rancho Bernardo and La Jolla Village Towers in La Jolla are also senior residential facilities located near the Facilities, they are currently month-to-month rental facilities, not continuing care facilities, and the Corporation does not consider them to be significant competitors.

(2) Does not include skilled nursing occupancy, if any.

Source: The Corporation

SELECTED FINANCIAL INFORMATION

Summary Statement of Activities and Changes in Net Assets

The following is a summary statement of activities and changes in net assets of the Corporation for the years ended July 31, 2004, 2005 and 2006, derived from the supplemental information attached to the audited combined financial statements of the Corporation for such periods, and for the six-month periods ended January 31, 2006 and 2007, derived from the unaudited financial statements of the Corporation for such periods, and includes all adjustments that management considers necessary to present such information in conformity with generally accepted accounting principles. The results of operations for the six months ended January 31, 2007 are not necessarily indicative of the operating results to be expected for the entire year ending July 31, 2007. The data set forth in the following table should be read in conjunction with the audited combined financial statements of the Corporation included as Appendix B to this Official Statement, including the supplemental information attached thereto.

SUMMARY STATEMENTS OF UNRESTRICTED REVENUE, EXPENSES AND OTHER CHANGES IN UNRESTRICTED NET ASSETS
(In thousands of dollars)

	Fiscal Year Ended July 31,			Six Months Ended January 31,	
	2004	2005	2006	2006	2007
				(unaudited)	
CHANGES IN UNRESTRICTED ASSETS:					
REVENUES, GAINS AND OTHER SUPPORT:					
Resident fees earned	$23,665,443	$24,615,888	$25,414,355	$12,744,794	$13,557,019
Investment income	678,381	846,885	986,578	592,493	487,958
Realized gains on sale of securities	235,141	637,299	449,058	456,859	634,916
Net assets released from restrictions, used for operations	--	--	--	--	--
Contributions	1,178,444	2,946,489	370,518	38,660	42,049
Total revenues, gains and other support	$25,757,409	$29,046,561	$27,220,509	$13,832,806	$14,721,943
OPERATING EXPENSES:					
Resident services	$ 712,957	$ 800,171	$ 762,129	$ 376,728	$ 405,717
Health center	4,608,064	4,684,631	4,655,925	2,430,582	2,281,369
Assisted living	922,401	1,005,599	1,432,576	643,657	847,698
Home health		35,247	270,572	123,895	221,795
Plant and maintenance	2,810,283	3,061,825	3,551,869	1,700,117	1,899,527
Housekeeping and laundry	1,381,207	1,362,874	1,481,693	743,806	789,743
Food and beverage	4,277,985	4,496,305	4,634,671		
Donation expense				2,307,239	2,345,277
General and administrative	2,990,220	3,489,005	3,553,139	1,713,210	1,795,687
Depreciation and amortization	2,798,804	2,948,744	3,766,775	1,790,627	1,886,627
Interest expense	1,932,862	1,838,597	1,740,358	870,777	815,512
Total operating expense	$22,434,783	$23,722,998	$25,849,707	$12,700,638	$13,288,952
Income from operations	$ 3,322,626	$ 5,323,563	$ 1,370,802	$1,132,168	$1,432,990
NONOPERATING (EXPENSES)	(8,560)	(124,817)	9,726	(540,599)	(1,074,779)
Excess of revenues over expenses	$ 3,314,066	$ 5,198,746	$ 1,380,528	$ 591,570	$ 358,211
NET UNREALIZED GAIN ON INVESTMENTS	1,560,315	1,745,582	532,349	540,599	1,074,779
CHANGE IN VALUE OF GIFT ANNUITY CONTRACTS					
NET ASSETS RELEASED FROM RESTRICTIONS, USED FOR CAPITAL EXPENDITURES					
Increase (decrease) in unrestricted net assets	$ 4,874,381	$ 6,944,328	$ 1,912,877	$ 1,132,168	$ 1,432,990

Sources of Revenues

For the fiscal year ended July 31, 2006, approximately 97% of total revenues (exclusive of unrealized gains/losses on investments) of the Corporation were derived from earned entrance fees, monthly service fees and investment income. Entrance fees are considered "earned" only to the extent that they are (i) net of the portion thereof that is refundable to a resident and (ii) amortized to income for the present year using the straight-line method over the estimated remaining life expectancy of the resident. Approximately 18% of the total revenues were derived from the Skilled Nursing Facility, of which approximately 74% (or approximately 13% of total revenues) were derived from non-resident patients covered by private insurance or responsible for payment. Management anticipates that earned entrance fees and monthly fees paid by residents will continue to be the largest source of revenues for the Corporation.

Prior to August 1997, the Corporation invested all of its funds available for investment (other than restricted debt service funds) in government and investment grade corporate bonds and cash. In August 1997, in an effort to maximize long-term returns on investments. These investments now total approximately $12,247,000 of excess reserve funds as of July 31, 2006 were invested in a highly diversified, no-load portfolio of publicly traded equity and fixed income mutual funds. Market value equity securities are subject to changes in the stock market, which may cause the Corporation's reserves to fluctuate from period to period or suffer a permanent reduction in value.

The Corporation was certified as a Medicare provider effective February 24, 1989. The certification to be a Medicare provider is subject to annual renewal. The current certificate is effective until February 23, 2008. The income and asset levels of the residents of the Facilities are not expected to permit them to qualify for Medi-Cal. Currently, the Corporation is not qualified to receive reimbursement from the State of California for the care of Medi-Cal eligible patients. The Corporation is a party to other third party payor contracts with entities other than Medicare, but management does not expect revenues derived from such contracts to constitute material portion of the Corporation's revenues, as these revenues currently represent 13% of the Corporation's revenues.

The following table sets forth the sources of revenue for the Skilled Nursing Facility for each of the three fiscal years in the period ended July 31, 2004, 2005 and 2006 and the six months ended January 31, 2007.

	Fiscal Year Ended July 31,			Six Months Ended January 31,
	2004	2005	2006	2007
Private	33.7%	33.4%	31.8%	31.0%
Life Care Revenues – Casa Resident Contracts	31.8%	24.2%	25.8%	23.8%
Medicare A	18.7%	29.0%	33.6%	37.4%
Medicare B	2.0%	2.7%	1.8%	1.8%
Other Insurance	0.7%	0.5%	0.5%	1.3%
Managed Care (HMO)	12.9%	10.0%	6.0%	3.6%
Hospice	0.2%	0.2%	0.5%	1.1%
Total	100%	100%	100%	100%

Fundraising

In July 1994, the Corporation formed Casa Foundation, Inc., a California nonprofit public benefit corporation (the "Foundation"), to provide charitable fund raising services and other constituency services for the exclusive support of the charitable purposes of the Corporation, in providing housing, care and services for the elderly. The Foundation is governed by a 5-member Board of Directors (the "Foundation Board"), which is elected annually. Three Foundation Board members must be members of the Corporation Board of Directors and two Foundation Board members must be residents in good standing of the Facilities. Funds received by the Foundation are distributed to the Corporation as determined by the Foundation Board. During the fiscal year ended July 31, 2006 the Foundation raised approximately $452,867 and distributed approximately $370,518 to the Corporation, compared to the fiscal year ended July 31, 2005, during which the Foundation raised approximately $1,536,718 and distributed to the Corporation approximately $2,946,489. While the Foundation's assets, liabilities, net assets and results of activities are included in the combined financial statements of the Corporation set forth in Appendix B to this Official Statement, the Foundation is not obligated to make payments with respect to the Bonds.

Capitalization

The table below presents a summary of (i) the capitalization of the Corporation as of July 31, 2006 and (ii) the capitalization of the Corporation as of July 31, 2006, as adjusted to reflect the issuance of the Bonds, the defeasance of the 1998 Bonds as if such issuance and defeasance had occurred at July 31, 2006.

	July 31, 2006	
	Actual	As Adjusted
	(000's omitted)	
Long-Term Debt:		
The Bonds	$30,922,041	$45,645,000
Other Long-Term Debt[1]	49,719	49,719
Total Long-Term Debt	30,971,760	45,694,719
Unrestricted Net Assets (Deficit)	17,880,179	17,880,179
Total Capitalization	48,851,939	63,574,898
Total Long-Term Debt as a Percentage of Total Capitalization	63%	72%

(1) Includes long-term portion of capital leases.

Source: The Corporation.

Debt Service Coverage and Days Cash on Hand

The following tables presents the debt service coverage ratios and days cash on hand for the Corporation for the fiscal years ended July 31, 2004, 2005 and 2006.

Debt Service Coverage

	Fiscal Year Ended July 31,		
	2004	2005	2006
Excess of Revenue Over Expenditures	$ 3,424,255	$ 5,227,030	$ 1,688,892
Plus: Interest Expense	1,932,862	1,838,597	1,740,358
Plus: Depreciation Expense	2,758,255	2,908,196	3,726,226
Plus: Amortization Expense	40,549	40,548	40,548
Plus: Provision for Bad Debts	2,500	101,940	24,381
Less: Amortization of Deferred Revenue	(6,996,970)	(6,378,429)	(6,288,150)
Plus Net Proceeds from Entrance Fees	10,864,076	7,765,334	7,970,349
CASH AVAILABLE FOR DEBT SERVICE	$12,025,528	$11,503,216	$8,902,603
ANNUAL DEBT SERVICE[(1)]	$3,870,253	$3,965,475	$3,785,224
DEBT SERVICE COVERAGE RATIO	3.11	2.90	2.35

(1) Includes Series 1998 Bonds and capital leases.

Source: The Corporation.

Days Cash on Hand

	As of July 31,		
	2004	2005	2006
Current Cash & Investments – Unrestricted	$ 3,575,368	$ 2,338,374	$ 1,245,792
Non-Current Cash & Investments – Unrestricted	12,793,753	15,549,492	10,811,598
Total Unrestricted Cash & Investments	16,369,121	17,887,866	12,057,390
Cash Operating Expenses	19,633,479	20,672,314	22,058,552
Average Daily Cash Expenses	53,790	56,636	60,434
Days Cash on Hand Ratio	304.31	315.84	199.51

Source: The Corporation.

Management's Discussion of Financial Performance

Operating Results for the Years Ended July 31, 2005 and 2006. The Corporation's total unrestricted revenues, gains and other support for the year ended July 31, 2006 decreased by $1,826,052 from the year ended July 31, 2005. This decrease was primarily due to a decrease in Contributions of

approximately $2.6 million, from $2,946,489 for the year ended July 31, 2005 to $370,518 for the year ended July 31, 2006. However, resident and net patient service revenues increased by approximately $798,467, from $24,615,888 for the year ended July 31, 2005 to $25,414,355 for the year ended July 31, 2006, due primarily to an increase in monthly service fees and higher Medicare occupancy in the Health Center. Investment income increased by approximately $139,693, from $846,885 for the year ended July 31, 2005 to $986,578 for the year ended July 31, 2006 to increased dividends and interest income.

The Corporation's operating expenses increased $2,126,709, from $23,722,998 for the year ended July 31, 2005 to $25,849,707 for the year ended July 31, 2006, due primarily to a $426,977 increase in expenses primarily due to the new Dementia Unit and other expenses associated with the assisted living facility, a $235,325 increase in expenses associated with the new home health program and an increase in Plant and Maintenance expenses of approximately $490,044 primarily due to utilities. These were offset primarily by a decrease in interest expense of approximately $98,239 due primarily to the retirement of long-term debt.

The Corporation's unrestricted revenues, gains and other support exceeded operating expenses by approximately $1,370,802 for the year ended July 31, 2006, compared to an excess of operating revenues over operating expenses of approximately $5,323,563 for the year ended July 31, 2005. The Corporation's increase in unrestricted net assets of approximately $1,912,877 included an unrealized gain on investments for the year ended July 31, 2006 of $532,349, compared to an unrealized gain of approximately $1,745,582 for the year ended July 31, 2005.

Operating Results for the Six Months Ended January 31, 2006 and 2007. The Corporation's total unrestricted revenues, gains and other support increased approximately $889,136, from $13,832,806 for the six months ended January 31, 2006 to $14,721,943 for the six months ended January 31, 2007. This increase was primarily due to resident and net patient service revenues increase of approximately $812,225, from $12,744,794 for the six months ended January 31, 2006 to $13,557,019 for the six months ended January 31, 2007, due primarily to an increase in monthly service fees and the Dementia Unit census and Home Health visits. Investment dividends and interest income decreased by approximately $104,535, from $592,493 for the six months ended January 31, 2007 due to decreased dividends and interest income. Additionally, Realized Gains on the sales of securities income increased by approximately $178,057, from $456,859 for the six months ended January 31, 2006 to $634,916 for the six months ended January 31, 2007, due favorable market trends.

The Corporation's operating expenses increased approximately $588,314, from $12,700,638 for the six months ended January 31, 2006 to $13,288,952 for the six months ended January 31, 2007, primarily due to $204,042 for the new Dementia unit and other expenses associated with the assisted living facility, a $97,900 increase in expenses associated with the home health program, consistent with the increase in related revenues, and an increase in Plant and Maintenance expenses of approximately $199,410 primarily due to utilities.

The Corporation's unrestricted revenues, gains and other support exceeded operating expenses by approximately $1,432,990 for the six months ended January 31, 2007, compared to an excess of operating revenues over operating expenses of $1,132,168 for the six months ended January 31, 2006. The Corporation's increase in unrestricted net assets was $1,132,168 for the six months ended January 31, 2006 compared to approximately $1,432,990 for the six months ended January 31, 2007.

Liquidity and Investment Policy

The Corporation's liquidity position (composed of cash equivalents, short-term investments and long-term investments) as of July 31, 2006 was $33,110,348 and as of January 31, 2007 was $33,804,173.

The Corporation's liquid cash and investments are managed according to an investment policy adopted by the Board of Directors.

Investment earnings and realized gains on sales of securities constitute a portion of the Corporation's total operating revenue. Due to variations in market performance as well as timing of the sale of securities, the level of investment earnings and realized gains reflected in the Corporation's statement of operations might vary significantly from year to year.

Swap Agreements

In connection with the issuance of the Series 2007 Bonds, the Corporation has entered into four interest rate exchange agreements. See "PLAN OF FINANCE – Interest Rate Swap Transaction" and "BONDHOLDERS' RISKS – Interest Rate Swap and Other Hedge Risk" in the forepart of the Official Statement.

Budget Process

The Corporation is managed under a budgetary plan adopted each year by its Board of Directors. Department directors prepare management plans and operational budgets with detailed input from other members of the staff. Senior management, with input from the Resident Finance Committee and Resident Executive Council, recommends the final budget that is presented to the Board of Directors for approval.

The budgeting process begins each January with the establishment of a budget timetable, budget process and service demand projections. The budget is completed and presented to the Board of Directors for approval by June each year, for implementation at the beginning of the next fiscal year. Senior management meets regularly to review operational performance and plan corrective actions as necessary.

INSURANCE MATTERS

The Corporation is insured for comprehensive liability, including corporate, general, commercial property, automobile, umbrella, boiler and machinery, crime, and professional liability, under a combination of commercial insurance policies with American Home Assurance, Lexington Insurance, Mt. Hawley Insurance Co., National Union, National Union Fire Insurance, and St. Paul Travelers, with limits and excess coverage that management considers adequate and similar to those of other comparable facilities. Insurance does not provide coverage for judgments for punitive damages. The Corporation is self-insured for workers' compensation claims beginning the year ended July 31, 2004 up to a maximum of $250,000 per occurrence. Self-insured losses are accrued based on the Corporation's estimates of the aggregate liability for uninsured claims incurred using the Corporation's experience resulted in a worker's compensation receivable of approximately $1,437,000 at July 31, 2006 and 2005 and in included in other receivables and other assets in the accompanying consolidated statements of financial position. The Corporation also maintains earthquake insurance for the Facilities with a limit of $10 million through July 31, 2007. In addition, the Corporation maintains directors' and officers' liability coverage through the National Union Fire Insurance Co. of up to $5 million. While the Corporation considers the Corporation's insurance coverage to be adequate, the Corporation is unable to predict the availability or cost of such insurance in the future.

CORPORATION GOVERNANCE

Pursuant to the Corporation's bylaws, control of the Corporation is vested in a Board of Directors consisting of 7 members. Directors are eligible to serve up to three consecutive three-year terms. The Directors may receive such compensation as may be determined by the Board.

The Board of Directors of the Corporation currently consists of the following persons:

Name	Position	Occupation	Term Expires (November)
Carlos Arbelaez		Retired, formerly CEO\President of an International Company	2009
James J. Beeman	Secretary	Retired, Corporate VP	2010
William J. Carlson	Vice-Chair	Retired, Construction VP	2009
Eileen Haag	Chairman	Communications Consultant	2009
Dr. Donald G. Haught		School Administration & HR Management Consultant	2009
Robin Jensen		CFO – Long Term Care	2011
Dr. Patricia Schmidt		Retired, Nursing Professor	2011
Ronald C. Stinson		Retired, Energy\Utility Consultant	2011
Robert W. Trettin		Consultant	2009

MANAGEMENT AGENT

The Facilities currently are managed by LCS pursuant to a management agreement (the "Management Agreement") between LCS and the Corporation. LCS is an Iowa for profit limited liability company with administrative headquarters in Des Moines. In addition to managing the Facilities, LCS manages approximately 75 other continuing care retirement communities, skilled nursing facilities and assisted living facilities nationwide and operates Medicare-certified home health agencies. LCS is not required to advance any of its funds (and does not advance funds) to cover any operating deficits of the facilities it manages, including the Facilities. LCS has been in the business of owning and/or managing continuing care retirement facilities similar to the Facilities for over 46 years.

LCS has been managing the Facilities since January 1, 1997. The term of the current Management Agreement commenced on August 1, 2006, and will be effective through July 31, 2009. Pursuant to the terms of the Management Agreement, LCS provides technical and advisory assistance for all operations of the Facilities; participates in and renders advice and assistance with respect to the marketing of units in the Retirement Center; prepares budget information, periodic financial statements and the various certifications and reports required under the Loan Agreement; and performs the normal business functions and otherwise operates and manages the business affairs of the Corporation with respect to the Facilities, all subject to the control and supervision of the Corporation's Board of Directors.

For services performed under the Management Agreement, LCS will receive monthly fees consisting of a fixed management fee of $40,000 per year 1, $42,500 year 2 and $45,000 year 3 until the expiration or earlier termination of the Management Agreement, plus certain annual incentive compensation to be determined by an evaluation of a combination of various factors, including resident satisfaction, Facilities census, and operating expense reduction; provided, however, that the incentive compensation paid for each of the fiscal years may not exceed $50,000. For the fiscal year ended July 31, 2006, LCS did not earn their incentive fees.

EMPLOYEES

As of January 31, 2007, approximately 299 full-time equivalent ("FTE") employees were employed at the Facilities. This total included 229 FTEs at the Retirement Center, including the Assisted Living Unit and the Dementia Unit, and 70 FTEs at the Skilled Nursing Facility. All of the FTEs at the Facilities are Corporation employees with the exception of the three senior management staff, who are LCS employees.

The Corporation provides compensation and a range of fringe benefits to its employees that management believes are competitive. Currently, none of the Corporation's employees is represented by a union and management is unaware of any union organizing activity at the Facilities. Management regards its relations with all employee groups as good, based on recurring employee surveys.

APPENDIX B

CONSOLIDATED FINANCIAL STATEMENTS OF CASA DE LAS CAMPANAS, INC.

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CASA DE LAS CAMPANAS

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

JULY 31, 2006 AND 2005

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KELLOGG & ANDELSON
ACCOUNTANCY CORPORATION

To the Members of the
Board of Directors
Casa de las Campanas
San Diego, California

Independent Auditors' Report

We have audited the accompanying consolidated statements of financial position of Casa de las Campanas (a nonprofit California corporation) as of July 31, 2006 and 2005, and the related consolidated statements of activities and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of Casa de las Campanas' management. Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Casa de las Campanas as of July 31, 2006 and 2005, 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.

Kellogg + Andelson

October 10, 2006

MEMBERS AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
CALIFORNIA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS
C.P.A. ASSOCIATES OFFICES IN PRINCIPAL CITIES

14724 VENTURA BOULEVARD SECOND FLOOR, SHERMAN OAKS, CALIFORNIA 91403
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CASA DE LAS CAMPANAS
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JULY 31, 2006 AND 2005

ASSETS

	2006	2005
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,045,047	$ 1,622,052
Assets whose use is limited or restricted, required for current liabilities	3,277,259	2,766,228
Short-term investments	218,123	716,322
Accounts receivable, net of allowance for doubtful accounts of $75,440 and $70,666, respectively	872,474	1,036,392
Prepaid expenses and other current assets	1,363,137	1,508,619
Contributions receivable	233,300	198,894
Other receivables	988,299	658,405
Total current assets	7,997,639	8,506,912
ASSETS WHOSE USE IS LIMITED OR RESTRICTED, less amounts classified as current	19,438,921	19,115,107
LONG-TERM INVESTMENTS	12,028,573	16,675,189
PROPERTY, BUILDINGS, AND EQUIPMENT, net	65,706,656	59,752,890
DEFERRED FINANCING FEES, net	567,682	608,231
OTHER ASSETS	799,942	799,942
Total assets	$ 106,539,413	$ 105,458,271

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 3,206,867	$ 3,389,463
Interest payable	866,319	914,534
Deposits from residents	812,120	916,021
Current portion of obligations under capital leases	39,454	41,878
Current portion of obligations under gift annuity contracts	343,877	333,970
Current portion of estimated refundable entrance fees	755,151	814,750
Current portion of long-term debt	2,185,000	2,085,000
Total current liabilities	8,208,788	8,495,616
OBLIGATIONS UNDER CAPITAL LEASES, net of current portion	49,719	89,173
OBLIGATIONS UNDER GIFT ANNUITY CONTRACTS, net of current portion	1,861,200	1,894,327
ESTIMATED REFUNDABLE ENTRANCE FEES, net of current portion	2,561,855	3,000,854
DEFERRED REVENUE, Pooled Income Funds	155,388	150,989
LONG-TERM DEBT, net of current portion	30,922,041	33,115,423
DEFERRED REVENUE FROM ENTRANCE FEES	42,578,165	40,408,368
Total liabilities	86,337,156	87,154,750
COMMITMENTS AND CONTINGENCIES	-	-
NET ASSETS:		
Unrestricted	17,880,179	15,967,302
Temporarily restricted	990,135	1,041,955
Permanently restricted	1,331,943	1,294,264
Total net assets	20,202,257	18,303,521
Total liabilities and net assets	$ 106,539,413	$ 105,458,271

The accompanying notes are an integral part of the consolidated financial statements

CASA DE LAS CAMPANAS
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JULY 31, 2006 AND 2005

	2006	2005
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES, GAINS AND OTHER SUPPORT:		
Resident fees earned, including amortization of deferred revenues from non-refundable entrance fees of $5,503,751 and $5,501,195, respectively	$ 25,414,355	$ 24,615,888
Investment income	1,030,322	875,151
Realized gains on sale of investments	475,801	648,704
Net assets released from restrictions, used for operations	158,766	130,584
Contributions	228,290	262,827
Total revenues, gains and other support	27,307,534	26,533,154
OPERATING EXPENSES:		
Resident services	762,129	800,171
Health center	4,655,925	4,684,631
Assisted living	1,432,576	1,005,599
Home health	270,572	35,247
Plant and maintenance	3,551,869	3,061,825
Housekeeping and laundry	1,481,693	1,362,874
Food and beverage	4,634,671	4,496,305
General and administrative	3,722,735	3,644,679
Depreciation and amortization	3,767,461	2,951,967
Interest expense	1,740,358	1,838,597
Total operating expenses	26,019,989	23,881,895
Income from operations	1,287,545	2,651,259
NONOPERATING REVENUE (EXPENSES)	9,726	(124,817)
Excess of revenues over expenses	1,297,271	2,526,442
NET UNREALIZED GAINS ON INVESTMENTS	535,610	1,836,213
CHANGES IN VALUE OF GIFT ANNUITY CONTRACTS	(12,183)	(161,187)
NET ASSETS RELEASED FROM RESTRICTIONS, USED FOR CAPITAL EXPENDITURES	92,179	2,742,860
Increase in unrestricted net assets	1,912,877	6,944,328
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	204,563	465,229
Investment income	11,750	40,245
Realized (losses) on sale of investments	(31)	(7,283)
Net unrealized (losses) on investments	(2,995)	(3,911)
Net assets released from restrictions, used for operations	(143,706)	(127,802)
Net assets released from restrictions, used for capital expenditures	(92,179)	(2,742,860)
Change in value of charitable remainder trusts and pooled income funds	(29,222)	31,054
(Decrease) in temporarily restricted net assets	(51,820)	(2,345,328)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	20,014	808,662
Investment income	11,453	8,571
Realized gains on sale of investments	11,145	4,007
Net unrealized gains on investments	3,389	37,410
Changes in value of gift annuity contracts	6,738	54,281
Net assets released from restrictions, used for operations	(15,060)	(2,782)
Increase in permanently restricted net assets	37,679	910,149
Increase in net assets	1,898,736	5,509,149
NET ASSETS BEGINNING OF YEAR	18,303,521	12,794,372
NET ASSETS END OF YEAR	$ 20,202,257	$ 18,303,521

The accompanying notes are an integral part
of the consolidated financial statements

CASA DE LAS CAMPANAS
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JULY 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from residents and third party payors	$ 19,290,123	$ 17,413,107
Proceeds from entrance fees	8,302,349	7,780,200
Unrestricted contributions	228,291	262,827
Investment income received	1,030,322	875,151
Cash paid to suppliers and employees	(20,706,598)	(13,199,363)
Cash paid for interest on long-term debt and capital lease obligations	(1,792,739)	(1,894,196)
Cash paid for interest on resident deposits	(4,185)	(4,924)
Net cash provided by operating activities	6,347,563	11,232,802
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(9,737,147)	(8,816,393)
Proceeds from sale of property, buildings, and equipment	37,700	-
Redemptions of investments	12,559,889	4,076,851
Purchases of investments	(7,238,640)	(3,690,941)
Net cash (used in) investing activities	(4,378,198)	(8,430,483)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Refunds of entrance fees	(332,000)	(14,866)
Refunds of resident deposits	(73,350)	(201,200)
Principal payments on obligations under capital leases	(41,878)	(58,296)
Principal payments on long-term debt	(2,085,000)	(2,030,000)
Restricted contributions and investment (loss)	(14,142)	(1,435,179)
Net cash (used in) financing activities	(2,546,370)	(3,739,541)
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(577,005)	(937,222)
CASH AND CASH EQUIVALENTS, beginning of year	1,622,052	2,559,274
CASH AND CASH EQUIVALENTS, end of year	$ 1,045,047	$ 1,622,052
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in net assets	$ 1,898,736	$ 5,509,149
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,767,461	2,951,967
Non-cash contributions	(44,293)	(220,068)
Amortization of entrance fees	(5,503,751)	(5,501,195)
Forfeited entrance fees	(795,399)	(882,734)
Proceeds from entrance fees	8,302,349	7,780,200
Amortization of bond premium	(8,382)	(8,361)
Loss on disposal of equipment	63,062	209,171
Realized (gain) on sale of investments	(486,915)	(645,428)
Unrealized (gain) on investments	(537,004)	(1,869,712)
Restricted contributions and investment (loss)	14,142	1,435,179
Change in value of charitable remainder trusts and pooled income funds	29,222	(31,054)
Change in the value of gift annuity contracts	(12,183)	(161,187)
Changes in operating assets and liabilities:		
Accounts receivable, net	163,918	(298,929)
Prepaid expenses and other current assets	145,482	(846,428)
Contributions receivable	(34,406)	520,354
Other receivables	(329,894)	47,721
Other assets	-	164,250
Accounts payable and accrued expenses	(182,596)	1,917,497
Interest payable	(48,215)	(50,750)
Deposits from residents	(30,551)	(196,831)
Obligations under gift annuity contracts	(23,220)	1,409,991
Net cash provided by operating activities	$ 6,347,563	$ 11,232,802
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:		
Equipment purchased under capital leases	$ -	$ 89,645
Donated equipment	$ 44,293	$ 220,068

The accompanying notes are an integral part
of the consolidated financial statements

NOTE 1 - DESCRIPTION OF BUSINESS

Casa de las Campanas ("Casa") is a not-for-profit continuing care retirement community, providing seniors with the highest of care and services, honoring their dignity and promoting independence. Casa was incorporated on September 19, 1990 as a California nonprofit corporation and operates a 413-unit continuing care retirement community and adjacent 99-bed skilled nursing facility.

Casa operates under the "continuing care" concept whereby residents enter into agreements that require payment of a one-time entrance fee and a monthly service charge. Generally, these payments will entitle residents to the use and privileges of the facility for life. The residence agreement does not entitle the residents to an ownership interest in the property.

Casa Foundation (the "Foundation"), a California non-profit public benefit corporation, was established in 1994 to solicit contributions from the general public in support of Casa. The Foundation Board of Directors consists of five members, three of whom are also members of Casa Board of Directors, and the remaining two are Casa residents in good standing. Funds of the Foundation are distributed exclusively to Casa for the benefit of its residents as determined by the Foundation's Board of Directors. The Foundation's assets, liabilities, net assets, and results of activities are included in the consolidated financial statements.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Casa de las Campanas and Casa Foundation (collectively the "Organization"). All significant intercompany balances have been eliminated in consolidation. Presentation of financial statements follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117 *"Financial Statements of Not-for-Profit Organization."* Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Unrestricted contributions are recognized as an increase in unrestricted net assets when received. Contributions restricted by the donors are reported as increases in temporarily or permanently restricted net assets depending on the nature of the donor-imposed restriction. When restrictions are satisfied, either by the passage of time or by the accomplishment of purpose, the temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Cash and Cash Equivalents

Cash equivalents include certain highly liquid investments with original maturities of three months or less.

Assets Whose Use is Limited or Restricted

Assets whose use is limited or restricted include (a) investments set aside by the donors for future capital improvements, (b) investments held by trustees and the Organization under bond indenture agreements, (c) investments set aside to comply with continuing care refund, debt service, operating expenses and insurance reserve requirements, (d) investments held in escrow accounts for subscription and wait list deposit obligations, and (e) net assets restricted by donors. These assets include cash and cash equivalents and investments in debt and equity securities, which are stated at fair value in the accompanying consolidated financial statements.

Investments

The Organization accounts for all its investments in accordance with SFAS No. 124, "*Accounting for Certain Investments Held by Not-for-Profit Organizations.*" As such, investments are measured at fair value in the consolidated statements of financial position. Investment income or losses (including interest, dividends, realized gains or losses and unrealized gains or losses on investments) are included in the consolidated statements of activities and changes in net assets.

Contributions Receivable

The Organization has adopted SFAS No 116, *"Accounting for Contributions Received and Contributions Made"*. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. Contributions where donor restrictions are met within the same fiscal year as the contribution are included in unrestricted net assets. Contributions of assets other than cash are recorded at their estimated fair value.

Property, Buildings, and Equipment

Property, buildings, and equipment are carried at historical cost, and depreciation and amortization is provided using the straight-line method over estimated useful lives as follows: buildings and improvements, 40 years; property under capital leases, 3 to 5 years; furniture and equipment, 3 to 15 years; and vehicles, 3 to 5 years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, Buildings, and Equipment - Continued

Impairment of long-lived assets is recognized whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. Measurement of the amount of impairment may be based on market values or similar assets or estimates of future discounted cash flows resulting from use and ultimate disposition of the assets.

Deferred Financing Fees

Deferred financing fees include costs related to the issuance of long-term debt (see Note 8) and are being amortized over the term of the bond issue of 22 years. Amortization expense related to deferred financing fees was $40,549 and $40,548 for the years ended July 31, 2006 and 2005, respectively, and is included in depreciation and amortization expense in the accompanying consolidated statements of activities and changes in net assets.

Deposits from Residents

Deposits from residents represent entrance fees received prior to occupancy and are accounted for as liabilities of Casa, as they are refundable in accordance with the terms of the residence agreements.

Estimated Refundable Entrance Fees

Estimated refundable entrance fees are recorded based on Casa's estimate of future refunds to current residents under the terms of the contracts in force and are based on current and historical refund experience.

Obligation to Provide Future Services

Casa annually calculates the present value of the net cost of future services and the use of facilities to be provided to current residents and compares that amount with the balance of deferred revenue from entrance fees. If the present value of the net cost of future services and the use of facilities exceeds the deferred revenue from entrance fees, a liability is recorded (obligation to provide future services and use of facilities) with the corresponding charge to income. The obligation is discounted at 5.30% and 4.57% in 2006 and 2005, respectively, based on the expected long-term rate of return on government obligations. At July 31, 2006 and 2005, the present value of the net cost of future services and the use of facilities did not exceed deferred revenue from entrance fees. Consequently, a liability has not been recorded.

Entrance Fees

Fees paid by a resident upon entering into a continuing care retirement contract, net of estimated future refunds, are recorded as deferred revenue from entrance fees and are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization have been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization in perpetuity.

Resident Service Fees

Resident services fees are recorded net of the provision for contractual allowances. The contractual allowance represents the difference between established rates and per diem reimbursement.

Resident Assistance

Casa provides care to residents who meet certain criteria under its resident assistance program without charge or at amounts less than its established rates. Casa maintains records to identify and monitor the level of assistance it provides. Because Casa does not pursue collection of amounts determined to qualify as resident assistance, they are not reported as resident fees earned. The following summary represents the fees charged for such services for the years ended July 31, 2006 and 2005:

	2006	2005
Resident assistance	$ 110,020	$ 106,455

Split-Interest Agreements

The following instruments are recorded as income or net assets at the present value of Casa's beneficiary interest:

Charitable Remainder Trusts – The Foundation is the beneficiary of three charitable remainder trust agreements (the "Trusts"). The Trusts are irrevocable, and the beneficiary designation may not be changed. Upon the death of the beneficiaries, or other termination of the trusts as defined, the remaining trust assets become the property of the Foundation as stipulated in the trust agreements. The beneficial interest in the Trusts is recorded at the expected fair value to be received by the Foundation. The Foundation calculated the expected fair value using the fair value of the trust at year-end, discounted at a rate of 6.0% over the life expectancy of the Trusts beneficiaries. The change in fair value of the Trusts is reflected in the consolidated statements of activities and changes in net assets. All beneficial interest in charitable remainder trust are included in the accompanying consolidated statements of financial position under assets whose use is limited or restricted and are classified as long-term.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Split-Interest Agreements - Continued

Charitable Gift Annuities – Donors have contributed assets to Casa in exchange for a promise by Casa to pay a fixed amount for a specified period of time to the donor or to individuals or organizations designated by the donor. Under the terms of such agreements, no trust exists as the assets are held by and the annual liability is an obligation of Casa. The contributed assets are recorded at fair market value on the date of receipt, and the liability obligation is recorded at the expected value of the annuity liability. The expected value of the annuity liability is calculated at the present value of the future annuity payments, discounted at a rate of 6.0% for contracts prior to April 1, 2005 and subsequently at 4.5% for all new contracts over the life expectancy of the donor or the designated beneficiary, as defined in the Insurance Code of the state of California. The change in fair value of the annuity liability is reflected in the consolidated statements of activities and changes in net assets. Casa is required to maintain a state mandated reserve to cover its gift annuity liability. For the years ended July 31, 2006 and 2005, the amount of the reserve was $2,205,077 and $2,228,297, respectively, and is included in the accompanying consolidated statements of financial position under assets whose use is limited or restricted.

Pooled Income Fund – The Foundation has formed one pooled income fund (the "Fund"). Donors have made irrevocable contributions of assets to the Fund in exchange for a promise by the Foundation to pay the actual income, as defined, earned on the donor's contribution for the remainder of the donor's or the donor's designated income beneficiary's lifetime. Upon the death of the donor or the designated income beneficiary, the value of his/her proportionate interest at the time reverts to the Foundation to be used for such purposes as the donor may have designated, or, if there was no designation, as the Foundation Board of Directors may determine. The assets of the pooled income fund are held and managed by an outside trustee who is responsible for investing the assets and making the quarterly income distributions to the beneficiaries. The contributed assets are recorded at fair market value on the date of receipt, and temporarily restricted contribution revenue is recorded at the present value of the fair value of assets received, discounted at a rate of 6.2% over the life expectancy of the donors or beneficiaries. The change in fair value of the contributed assets is reflected in the consolidated statements of activities and changes in net assets. The assets under the pooled income fund are included in the accompanying consolidated statements of financial position under assets whose use is limited or restricted.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Excess of Revenues Over Expenses

The accompanying consolidated statements of activities and changes in net assets include excess of revenues over expenses. Changes in unrestricted net assets that are excluded from excess of revenues over expenses include net unrealized gain or loss on investments, changes in value of gift annuity contracts, and net assets released from restrictions used for capital expenditures.

Income Taxes

Casa and Casa Foundation are nonprofit organizations under the provisions of Section 501(c)(3) of the Internal Revenue Code and similar provisions for the state of California. Accordingly, no provision for income taxes has been made. Casa and Casa Foundation maintain its tax-exempt status through devoting its resources to meet the primary needs of aged persons, housing, health care, and financial security.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments and Concentrations of Credit Risk

The estimated fair value of financial instruments has been determined by the Organization using available market information and appropriate methodologies; however, considerable judgment is required in interpreting market data to develop these estimates. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Organization could realize in a current market exchange. Certain of these financial instruments expose the Organization to market and credit risk and may, at times, be concentrated with certain counterparties or groups of counterparties.

The following methods and assumptions were used to estimate the fair value of certain financial instruments.

Cash and Cash Equivalents - Cash and cash equivalents consist principally of investments in short-term, interest-bearing instruments and are carried at cost plus accrued interest, which approximates fair value.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value of Financial Instruments and Concentrations of Credit Risk - Continued

Contributions Receivable - The fair value of contributions receivable, after allowances for uncollectible pledges, was determined by discounting the expected future cash flows by a risk-free rate of return for similar terms of pledges receivable.

Investments - Investments are recorded at fair value, based principally upon quoted market values.

Split-Interest Agreements - Trusts held by third parties consist of numerous arrangements in which a donor establishes and funds a trust administered by a third party other than the Organization. These trusts are recorded at the fair value of the net assets contributed to the trust for which the Organization has a beneficial interest.

Financial instruments that potentially subject the Organization to concentration of credits consist principally of cash and cash equivalents, investments, and accounts receivable. The Organization places its cash and cash equivalents and investments into several high-quality financial institutions. The Organization's customer base consists of a large number of customers. The Organization performs credit evaluations and writes off uncollectible amounts as they become known.

NOTE 3 - ASSETS WHOSE USE IS LIMITED OR RESTRICTED

Assets whose use is limited or restricted are available for the following purposes for the years ended July 31, are as follows:

	2006	2005
Held by Trustee under bond indenture	$ 3,752,683	$ 3,696,870
Held by Casa under bond indenture	4,034,985	4,034,985
Held by Casa for refund reserve requirements	4,898,076	4,802,035
Held by Casa for operating expense reserve requirements	3,430,168	3,109,690
Subscription and wait list deposits	3,277,259	2,766,228
Restricted by donors	703,353	764,043
Charitable gift annuities	2,205,077	2,268,529
Charitable remainder trusts	47,107	47,253
Pooled income fund	367,472	391,702
	22,716,180	21,881,335
Less: Amounts required for current liabilities	3,277,259	2,766,228
	$ 19,438,921	$ 19,115,107

NOTE 4 - INVESTMENTS

The composition of investments, recorded at fair value at July 31, is as follows:

	2006	2005
Cash and cash equivalents	$ 762,805	$ 2,138,067
Domestic – bond mutual funds	6,457,265	7,760,482
International – bond mutual funds	295,206	2,425,024
Domestic – equity mutual funds	10,569,501	11,403,614
International – equity mutual funds	4,904,559	4,127,590
Absolute return	2,055,431	1,223,951
U.S. Treasuries	4,647,660	5,062,616
Commodities	1,188,357	1,049,264
Guaranteed investment contract	4,034,985	4,034,985
Receivables due under charitable remainder trusts	47,107	47,253
	34,962,876	39,272,846
Less: Amounts classified as assets whose use is limited or restricted – current and non-current	22,716,180	21,881,335
	12,246,696	17,391,511
Less: Short-term investments	218,123	716,322
Long-term investments	$ 12,028,573	$ 16,675,189

The guaranteed investment contract represents investments administered by an independent professional investment company in a managed investment pool with a guaranteed specified rate of interest. Interest payments are due to the participant semiannually. The assets of the pool are invested in U.S. government obligations, corporate securities, taxable municipal securities, mortgage-backed securities, and mutual funds rated "AAA" by Standards and Poors and "AAa" by Moody's.

The composition of investment return for the years ended July 31, 2006 and 2005 are as follows:

	2006			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income	$ 1,030,322	$ 11,750	$ 11,453	$ 1,053,525
Realized gains (losses) on sale of investments	475,801	(31)	11,145	486,915
Net unrealized gains (losses) on investments	535,610	(2,995)	3,389	536,004
Total	$ 2,041,733	$ 8,724	$ 25,987	$ 2,076,444

NOTE 4 - INVESTMENTS - CONTINUED

	2005			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Investment income	$ 875,151	$ 40,245	$ 8,571	$ 923,967
Realized gains (losses) on sale of investments	648,704	(7,283)	4,007	645,428
Net unrealized gains (losses) on investments	1,836,213	(3,911)	37,410	1,869,712
Total	$ 3,360,068	$ 29,051	$ 49,988	$ 3,439,107

NOTE 5 - PROPERTY, BUILDINGS, AND EQUIPMENT

Property, buildings, and equipment at July 31, 2006 and 2005 are as follows:

	2006	2005
Land and land improvements	$ 14,127,692	$ 14,139,822
Buildings and improvements	70,128,727	56,243,952
Property under capital leases	198,330	210,875
Furniture and equipment	10,875,908	8,874,836
Vehicles	532,573	497,990
Art collection	264,361	220,068
	96,127,591	80,187,543
Less: Accumulated depreciation and amortization	31,261,907	27,645,388
	64,865,684	52,542,155
Construction in progress	840,972	7,210,735
Property, buildings, and equipment, net	$ 65,706,656	$ 59,752,890

Depreciation and amortization expense for the years ended July 31, 2006 and 2005 amounted to $3,726,207 and $2,911,419, respectively

NOTE 6 - TEMPORARILY RESTRICTED AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes for the years ended July 31:

	2006	2005
Resident assistance	$ 60,740	$ 155,845
Capital expenditures	275,552	251,522
Other	653,843	634,588
	$ 990,135	$ 1,041,955

Permanently restricted net assets of $1,331,943 and $1,294,264 at July 31, 2006 and 2005 are restricted to the Resident Activity and Scholarship Endowment Fund.

NOTE 7 - RESIDENCE AGREEMENTS

For the right to occupy a living unit for life and to receive certain services, residents are required to pay an entrance fee. Upon execution of a deposit agreement, 20% of the entrance fee is payable with the remaining 80% due on or before occupancy by the residents.

Residents may cancel their Residence Agreement at any time up to 90 days after establishing residency at Casa and will be refunded the full amount of the entrance fee paid, less an application fee of $1,000. After the 90-day period has expired, residents are entitled to receive various amounts of refunds based upon one of seven agreements covering Casa, as follows:

- Rental resident (1 agreement) - Residents under this plan pay a rental deposit which is applied after occupancy to monthly rentals. No entrance fee was paid under this contract. This resident pays a higher monthly rental than those under the other plans. This plan is no longer offered.

- Refundable 94 Plan (3 agreements) - Residents (or their estates) are entitled to a refund of 94% of the entrance fee paid. This plan is no longer offered.

- Standard resident agreement (440 agreements) - If cancellation occurs in the first seven and one-half years of residency, the resident shall be refunded the entrance fee, less 10% of the amount paid and 1% for each month or partial month that they were a resident. After seven and one-half years of residency, no refund is made. If the resident expires after the 90-day cancellation period, no refund is made and the unamortized entrance fee is recognized into income.

NOTE 7 - RESIDENCE AGREEMENTS - CONTINUED

- Modified Standard Plan (2 agreements) - If cancellation or death occurs in the first seven and one-half years of residency, the residents (or their estates) shall be refunded the entrance fee, less 10% of the amount paid and 1% for each month or partial month that they were a resident. After seven and one-half years of residency, no refund is made. The first and second person's entry fees are treated separately and the first person to vacate the unit due to death or withdrawal is refunded on a second person fee basis, and the remaining individual is considered as the first person. This plan is no longer offered.

- Refundable 50 Plan (1 agreement) - Resident (or their estate) is entitled to a refund of 50% of the entrance fee paid. This plan is no longer offered.

- Refundable 75 Plan (2 agreements) – Residents (or their estates) are entitled to a refund of 75% of the entrance fee paid.

- Refundable 80 Plan (3 agreements) - Residents (or their estates) are entitled to a refund of 80% of the entrance fee paid. This plan is no longer offered.

Included in deferred revenue from entrance fees as of July 31, 2006 and 2005 are approximately $28,130,882 and $26,828,250, respectively, of amounts contractually refundable under these agreements.

In addition to the entrance fees, all residents are charged monthly service fees. In addition to receiving various services such as food, utilities, cleaning, scheduled transportation services, and other services offered by Casa, residents are entitled to various levels of care, including assisted living and nursing care. Service fees are established at the inception of occupancy and may be increased by Casa according to "economic necessity," which is related to the percentage change in the prior year per capita cost of operating expenses of Casa for furnishing services to the residents.

NOTE 8 - LONG-TERM DEBT

Long-term debt is comprised of the following at July 31:

	2006	2005
Series 1998 A Insured Revenue Bonds, comprised of fixed rate serial and term bonds, due August 1, 2020, serial bond principal due annually each August 1 beginning 1999, and term bond sinking account payments due annually each August 1 beginning 2013, interest payable semiannually at rates ranging from 4.0% to 5.5%.	$ 33,107,041	$ 35,200,423
Less: Current portion	2,185,000	2,085,000
	$ 30,922,041	$ 33,115,423

NOTE 8 - LONG-TERM DEBT - CONTINUED

Schedule of principal repayments on long-term debt are as follows for fiscal years ending July 31:

2007	$ 2,185,000
2008	2,295,000
2009	2,405,000
2010	2,525,000
2011	2,660,000
2012 to 2016	11,890,000
2017 to 2020	9,030,000
	32,990,000
Plus unamortized bond premium	117,041
	$ 33,107,041

Casa is subject to financial covenants on its long-term debt which include a debt service coverage ratio. Casa was in compliance with all its covenants as of and for the years ended July 31, 2006 and 2005, respectively.

NOTE 9 - OBLIGATIONS UNDER CAPITAL LEASES

Casa leases equipment under capital leases, with most leases containing a purchase option at prices representing the fair value of the equipment at expiration of the lease term. Property under capital leases is amortized over the lease terms of 3 to 5 years. Amortization expense of capital leases in 2006 and 2005 included in depreciation and amortization expense totaled $42,446 and $34,818, respectively.

Future minimum lease payments as of July 31, 2006 are as follows:

2007	$ 47,515
2008	27,658
2009	25,362
2010	3,839
Total minimum lease payments	104,374
Less: Amount representing interest at 3.50% to 12.99%	15,201
Present value of net minimum capital lease payments	89,173
Less: Current portion	39,454
	$ 49,719

NOTE 10 - BENEFIT PLAN

Casa sponsors a 403(b) defined contribution plan (the "Plan") covering all eligible employees. Participants must be 21 years of age and work at least 20 hours per week. Participants of the Plan may contribute up to $20,000 (50 years or older) or $15,000 (under 50 years old) of their pre-tax salary. Casa makes matching contributions currently at 50% of the first 6% of gross wages. All contributions vest immediately. Total employer contributions to the Plan for 2006 and 2005 were $101,553 and $111,075, respectively.

NOTE 11 - MANAGEMENT AGREEMENT

In 2006, Casa entered into a management agreement extension with Life Care Services LLC, expiring on July 31, 2009. Management fee expense related to this agreement, included in general and administrative expense, was approximately $829,498 and $753,794, inclusive of salary and benefits, for the years ended July 31, 2006 and 2005, respectively. Amounts due and payable to Life Care Services, Inc. amounted to approximately $35,326 and $103,582 at July 31, 2006 and 2005, respectively. Management fee expense may vary year to year as certain amounts are based upon an incentive performance computation.

NOTE 12 - LITIGATION

Casa is involved in litigation arising in the normal course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on Casa's future financial position or changes in net assets.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Construction

Casa has several projects under construction and pre-development. Total pre-development and construction costs as of July 31, 2006 and 2005 amounted to $840,972 and $7,210,735, respectively. Casa's estimated costs to complete construction of these projects will be approximately $2,685,920 through August 2007.

NOTE 14 - INSURANCE COVERAGE

Professional Liability

Casa is insured for professional and general liability claims under an occurrence-based policy for $1,000,000 per occurrence and $3,000,000 aggregate and $25,000,000 program aggregate. Losses in excess of the limits are covered by an umbrella liability policy up to $10,000,000 per occurrence and $50,000,000 aggregate. Deductibles under the policy range from $250 to $25,000.

Self-Insured

Casa is self-insured for workers compensation claims beginning in the year ended July 31, 2004 up to a maximum of $250,000 per occurrence. Self-insured losses are accrued based upon Casa's estimates of the aggregate liability for uninsured claims incurred using Casa's historical experience. The excess of premiums paid for actual claims experience resulted in a worker's compensation receivable of approximately $1,437,000 at July 31, 2006 and 2005 and is included in other receivables and other assets in the accompanying consolidated statements of financial position.

CASA DE LAS CAMPANAS

CONSOLIDATED SUPPLEMENTARY INFORMATION

JULY 31, 2006 AND 2005

KELLOGG & ANDELSON
ACCOUNTANCY CORPORATION

K&A

To the Members of the
Board of Directors
Casa de las Campanas
San Diego, California

Independent Auditors' Report on Consolidated Supplementary Information

Our report on our audit of the basic consolidated financial statements of Casa de las Campanas for 2006 appears on page 1. The audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The consolidated supplementary information on pages 20 through 21 is presented for the purpose of additional analysis and is not a required part of the basic consolidated financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements, and, accordingly, we express no opinion on it.

Kellogg + Andelson

October 10, 2006

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CASA DE LAS CAMPANAS
CONSOLIDATED SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
JULY 31, 2006
SEE ACCOUNTANTS' REPORT ON CONSOLIDATED SUPPLEMENTARY INFORMATION

ASSETS

	Casa de Las Campanas	Casa Foundation	Eliminations	Consolidated
CURRENT ASSETS:				
Cash and cash equivalents	$ 1,027,669	$ 17,378	$ -	$ 1,045,047
Assets whose use is limited or restricted, required for current liabilities	3,277,259	-	-	3,277,259
Short-term investments	218,123	-	-	218,123
Accounts receivable, net	872,474	-	-	872,474
Prepaid expenses and other current assets	1,363,137	-	-	1,363,137
Contributions receivable	-	233,300	-	233,300
Other receivables	988,299	-	-	988,299
Total current assets	7,746,961	250,678	-	7,997,639
INTERCOMPANY RECEIVABLES	2,897,420	1,500,300	(4,397,720)	-
ASSETS WHOSE USE IS LIMITED OR RESTRICTED, less amounts classified as current	18,118,698	1,320,223	-	19,438,921
LONG-TERM INVESTMENTS	10,811,598	1,216,975	-	12,028,573
PROPERTY, BUILDINGS, AND EQUIPMENT, net	65,441,667	264,989	-	65,706,656
DEFERRED FINANCING FEES, net	567,682	-	-	567,682
OTHER ASSETS	799,942	-	-	799,942
Total assets	$ 106,383,968	$ 4,553,165	$ (4,397,720)	$ 106,539,413

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 3,206,810	$ 57	$ -	$ 3,206,867
Interest payable	866,319	-	-	866,319
Deposits from residents	812,120	-	-	812,120
Current portion of obligations under capital leases	39,454	-	-	39,454
Current portion of obligations under gift annuity contracts	343,877	-	-	343,877
Current portion of estimated refundable entrance fees	755,151	-	-	755,151
Current portion of long-term debt	2,185,000	-	-	2,185,000
Total current liabilities	8,208,731	57	-	8,208,788
OBLIGATIONS UNDER CAPITAL LEASES, net of current portion	49,719	-	-	49,719
OBLIGATIONS UNDER GIFT ANNUITY CONTRACTS, net of current portion	1,861,200	-	-	1,861,200
ESTIMATED REFUNDABLE ENTRANCE FEES, net of current portion	2,561,855	-	-	2,561,855
DEFERRED REVENUE, Pooled Income Funds	-	155,388	-	155,388
LONG-TERM DEBT, net of current portion	30,922,041	-	-	30,922,041
DEFERRED REVENUE FROM ENTRANCE FEES	42,578,165	-	-	42,578,165
Total liabilities	86,181,711	155,445	-	86,337,156
NET ASSETS:				
Unrestricted	17,880,179	2,075,642	(2,075,642)	17,880,179
Temporarily restricted	990,135	990,135	(990,135)	990,135
Permanently restricted	1,331,943	1,331,943	(1,331,943)	1,331,943
Total net assets	20,202,257	4,397,720	(4,397,720)	20,202,257
Total liabilities and net assets	$ 106,383,968	$ 4,553,165	$ (4,397,720)	$ 106,539,413

CASA DE LAS CAMPANAS
SUPPLEMENTARY INFORMATION
CONSOLIDATING STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JULY 31, 2006
SEE ACCOUNTANTS' REPORT ON SUPPLEMENTARY INFORMATION

	Casa de Las Campanas	Casa Foundation	Eliminations	Consolidated
CHANGES IN UNRESTRICTED NET ASSETS:				
REVENUES, GAINS AND OTHER SUPPORT:				
Resident fees earned, including amortization of deferred revenues from non-refundable entrance fees of $5,503,751	$ 25,414,355	$ -	$ -	$ 25,414,355
Investment income	986,578	43,744	-	1,030,322
Realized gains on sale of investments	449,058	26,743	-	475,801
Net assets released from restrictions, used for operations	-	158,766	-	158,766
Contributions	370,518	228,290	(370,518)	228,290
Total revenues, gains and other support	27,220,509	457,543	(370,518)	27,307,534
OPERATING EXPENSES:				
Resident services	762,129	-	-	762,129
Health center	4,655,925	-	-	4,655,925
Assisted living	1,432,576	-	-	1,432,576
Home health	270,572	-	-	270,572
Plant and maintenance	3,551,869	-	-	3,551,869
Housekeeping and laundry	1,481,693	-	-	1,481,693
Food and beverage	4,634,671	-	-	4,634,671
Donation expense	-	244,859	(244,859)	-
General and administrative	3,553,140	169,595	-	3,722,735
Depreciation and amortization	3,766,774	687	-	3,767,461
Interest expense	1,740,358	-	-	1,740,358
Total operating expenses	25,849,707	415,141	(244,859)	26,019,989
Income from operations	1,370,802	42,402	(125,659)	1,287,545
NONOPERATING REVENUES	9,726	-	-	9,726
Excess of revenues over expenses	1,380,528	42,402	(125,659)	1,297,271
NET UNREALIZED GAINS ON INVESTMENTS	532,349	9,676	(6,415)	535,610
CHANGE IN VALUE OF GIFT ANNUITY CONTRACTS	-	(12,183)	-	(12,183)
NET ASSETS RELEASED FROM RESTRICTIONS, USED FOR CAPITAL EXPENDITURES	-	92,179	-	92,179
Increase in unrestricted net assets	1,912,877	132,074	(132,074)	1,912,877
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:				
Contributions	204,563	204,563	(204,563)	204,563
Investment income	11,750	11,750	(11,750)	11,750
Realized (losses) on sale of investments	(31)	(31)	31	(31)
Net unrealized (losses) on investments	(2,995)	(2,995)	2,995	(2,995)
Net assets released from restrictions, used for operations	(143,706)	(143,706)	143,706	(143,706)
Net assets released from restrictions, used for capital expenditures	(92,179)	(92,179)	92,179	(92,179)
Change in value of charitable remainder trusts and pooled income funds	(29,222)	(29,222)	29,222	(29,222)
(Decrease) in temporarily restricted net assets	(51,820)	(51,820)	51,820	(51,820)
CHANGES PERMANENTLY RESTRICTED NET ASSETS:				
Contributions	20,014	20,014	(20,014)	20,014
Investment income	11,453	11,453	(11,453)	11,453
Realized gains on sale of investments	11,145	11,145	(11,145)	11,145
Net unrealized gains on investments	3,389	3,389	(3,389)	3,389
Changes in value of gift annuity contract	6,738	6,738	(6,738)	6,738
Net assets released from restrictions, used for operations	(15,060)	(15,060)	15,060	(15,060)
Increase in permanently restricted net assets	37,679	37,679	(37,679)	37,679
Increase in net assets	1,898,736	117,933	(117,933)	1,898,736
NET ASSETS BEGINNING OF YEAR	18,303,521	4,279,787	(4,279,787)	18,303,521
NET ASSETS END OF YEAR	$ 20,202,257	$ 4,397,720	$ (4,397,720)	$ 20,202,257

APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

Brief descriptions of the Indenture, the Loan Agreement and the Deed of Trust are included hereafter in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Bond Indenture, the Loan Agreement and the Deed of Trust are qualified in their entirety by reference to each such document, copies of which are available for review prior to the issuance and delivery of the Series 2007 Bonds at the office of the Authority and thereafter at the office of the Bond Trustee. All references to the Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto included in the Bond Indenture.

The Series 2007 Bonds are secured by the Bond Indenture, the Loan Agreement and the Deed of Trust, and all references herein to the Bonds, the Bond Indenture and the Loan Agreement should be interpreted accordingly.

As more fully described in the forepart of this Official Statement, payment of the principal of and interest on (but not the Purchase Price with respect to) the Bonds is guaranteed by a municipal bond insurance policy issued by Radian Asset Assurance Inc. as Bond Insurer. The Series 2007 Bonds will be issued in the Weekly Mode, and will be supported initially by a standby bond purchase agreement entered into with KBC Bank N.V., New York Branch, as Liquidity Facility Provider. Certain rights otherwise available to the holders of the Bonds have been reserved for the Bond Insurer as described herein.

DEFINITIONS

Set forth below are definitions of certain terms used in the Bond Indenture, the Loan Agreement and the Deeds of Trust.

"*Act*" means Chapter 5 of Division 7 of Title I (commencing with Section 6500) of the Government Code of the State of California as from time to time amended.

"*Additional Bonds*" means bonds of a series authorized by the Authority and issued under and pursuant to a supplemental indenture.

"Annual Operating Revenues" means revenues comprising program service fees, other income and investment income for any Fiscal Year, all as determined in accordance with generally accepted accounting principles.

"Annual Evaluation Date" means December 31st of each calendar year.

"*Authority*" means the ABAG Finance Authority for Nonprofit Corporations, a joint exercise of powers authority duly organized and existing under the laws of the State of California, created and existing under and by virtue of the Act, and its successors and assigns.

"*Authorized Representative*" means the President, Chief Financial Officer, or Secretary of the Authority or any other officer authorized by the Authority to take action pursuant herewith.

"*Bond Counsel*" means any nationally recognized municipal bond counsel acceptable to the Authority, the Bond Trustee and the Bond Insurer.

"*Bond Financed Property*" means any and all property financed or refinanced with the proceeds of the Bonds or the Refunded Bonds.

"*Bond Indenture*" means the Bond Trust Indenture, dated as of May 1, 2007 between the Authority and the Bond Trustee, as it may from time to time be amended or supplemented.

"*Bond Insurance Policies*" means the financial guaranty insurance policies issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided herein.

"*Bond Insurer*" means Radian Asset Assurance Inc., a corporation organized under the laws of the state of New York, or any successor thereto or assignee thereof and any surviving, resulting or transferee corporation.

"*Bond Sinking Fund*" means the fund by that name created under the Indenture to which amounts are to be deposited in connection with a sinking fund.

"*Bond Trustee*" means U.S. Bank National Association, or any successor trustee under the Bond Indenture.

"*Bond Year*" means any 12-month period beginning September 1 of a calendar year and ending August 31 of the next succeeding year. For the purpose of calculating debt service on the Bonds payable in any Bond Year, principal and interest payable on the Bonds on September 1 of any Bond Year shall be deemed to be payable during the preceding Bond Year.

"*Bondholder*," "*holder*" or "*owner of the Bonds*" means the registered owner of any Bond and does not mean any beneficial owner of a Bond whether through a book-entry system or otherwise.

"*Bonds*" means, collectively, the $54,645,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007A (the "Series 2007A Bonds"), the ABAG Finance Authority for Nonprofit Corporations Taxable Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007B (the "Series 2007B Bonds"), and any other series of Bonds issued hereunder.

"*Business Day*" means any day other than (a) a Saturday, Sunday or other day on which banks located in New York, New York or any other city in which the Principal Office of the Liquidity Facility Provider, the Bond Insurer, the Remarketing Agent, the Tender Agent, the Auction Agent, the Market Agent, any Broker-Dealer or the Bond Trustee is located are required or authorized by law to close, (b) a day on which the New York Stock Exchange is closed, or (c) a day on which the payment system of the Federal Reserve System is not operational.

"*Closing Date*" means May 2, 2007, the date of initial issuance and delivery of the Bonds.

"*Code*" means the Internal Revenue Code of 1986, as amended, or any corresponding provision of any future laws of the United States of America relating to federal income taxation, and except as otherwise provided herein or required by the context hereof, includes interpretations thereof contained or set forth in the applicable regulations of the Department of the Treasury (including applicable final regulations or temporary regulations), the applicable rulings of the Internal Revenue Service (including published Revenue Rulings and private letter rulings) and applicable court decisions.

"Continuing Disclosure Agreement" means that certain Continuing Disclosure Agreement between the Corporation and the Trustee, as dissemination agent, dated as of May 1, 2007, as originally executed and as it may be amended from time to time in accordance with the terms thereof.

"Construction Completion" means the completion of construction of the Facilities as evidenced by a certificate of the Corporation.

"Consulting Engineer" means an engineer (or engineering firm or corporation) or Architect appointed by the Corporation who is Independent and registered in the State and qualified to pass upon matters relating to residential facility construction questions.

"Consultant" or "Management Consultant" means a firm which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of the Corporation or any Affiliate of the Corporation, and which is a professional consultant and having the skill and experience necessary to render the particular report required by the provision hereof in which such requirement appears.

"*Corporation*" means Casa de las Campanas, Inc., a California nonprofit public benefit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

"Costs of Issuance" or *"Issuance Costs"* means all costs and expenses of issuance of the Bonds, including, but not limited to: (i) underwriters' discount and fees; (ii) counsel fees, including, without limitation, Bond Counsel, and special tax counsel fees, as well as counsel fees for the Authority; (iii) fees and expenses of the Authority (including, but not limited to, the Authority's initial bond administration fee consisting of five one-hundredths of one percent (0.05%) of the aggregate principal amount of the Bonds; (iv) financial advisor fees; (v) rating agency fees; (vi) trustee fees and trustee counsel fees; (vii) paying agent and certifying and authenticating agent fees related to issuance of the Bonds; (viii) accounting fees and expenses; (ix) printing costs of the Bonds and of the preliminary and final official statement; (x) publication costs associated with the financing proceedings; (xi) costs of any credit enhancement of the Bonds; and (xii) any other fees or costs deemed issuance costs for purposes of the Act and by Section 1.150-1(b) of the Income Tax Regulations.

"*Daily Mode*" means the Mode during which Bonds bear interest at the Daily Rate.

"*Daily Rate*" means an interest rate that is determined on each Business Day with respect to the Bonds in the Daily Mode.

"Days Cash On Hand" means, with respect to any particular evaluation date, the quotient produced by dividing the sum of unrestricted cash, investments and board designated funds (which cash, investments and funds shall exclude any cash collateral amounts held to support obligations under any Interest Rate Agreement) by operating expenses minus depreciation and amortization, and then multiplying the quotient by 365

"Debt Service" means, for any Fiscal Year, the sum of:

(1) the interest payable during such Fiscal Year with respect to all outstanding Bonds, assuming that all outstanding serial Bonds are retired as scheduled and that all outstanding term Bonds are redeemed or paid from Sinking Account Installments as scheduled (except to the extent that such interest is capitalized);

(2) that portion of the principal amount with respect to all outstanding Bonds maturing in such Bond Year or scheduled to be redeemed from Sinking Fund Installments; and

(3) that portion of the payments on other Long-Term Indebtedness, including but not limited to Parity Debt, or capital leases (collectively, "Payments") required to be made by, or guaranteed by, the Corporation during such Fiscal Year (except to the extent that the interest portion of such Payments is capitalized);

(4) provided that, as to any such Bonds or Payments bearing or comprising interest at other than a fixed rate, the rate of interest used to calculate Debt Service shall be (i) the average interest rate on such Bonds or Payments during the twenty-four (24) calendar months preceding the date of calculation (or the portion of the then current Fiscal Year that such Bonds or Payments have borne interest) or (ii) if such Bonds or Payments were not outstanding during such twenty-four (24) calendar month period but at least twelve (12) months, one hundred twenty percent (120%) of the average rat of such Bonds or Payments during the twelve (12) calendar months preceding the date of calculation or (iii) if such Bonds or Payments were outstanding for less than twelve (12) calendar months, the rate of the Bond Market Association Municipal Swap Index for tax-exempt Indebtedness or LIBOR for taxable Indebtedness; and

(5) provided further that if any series or issue of such Bonds or Payments have twenty-five percent (25%) or more of the aggregate principal amount of such series or issue due in any one year, Debt Service shall be determined for the Fiscal Year of determination as if the principal of and interest on such series or issue of such Bonds or Payments were being paid from the date of incurrence thereof in substantially equal annual amounts over a period equal to the lesser of twenty (20) years from the date of calculation or the actual remaining term to maturity; alternatively such Indebtedness may be assumed to mature in accordance with the terms of a binding commitment to pay such Indebtedness upon maturity from a financial institution rated "Aa" by Moody's or "AA" by Standard and Poor's; and

(6) provided further that with respect to Payments under any Interest Rate Agreement, during the term of such Interest Rate Agreement and so long as the provider (or guarantor thereof) of such Interest Rate Agreement is rated in an investment grade category by a Rating Agency and is not in default thereunder, for purposes of any calculation of interest on Long-Term Indebtedness (including Bonds), the interest rate (or portion thereof) on the Indebtedness of such maturity or maturities shall be determined as if such Indebtedness bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by the Corporation after giving effect to such Interest Rate Agreement. Any obligations under an Interest Rate Agreement shall not be separately included in any calculation of interest on Long-Term Indebtedness; and

(7) provided further that, with respect to Long-Term Indebtedness guaranteed by the Corporation, there shall be included in Debt Service (i) twenty-five percent (25%) of the Corporation's maximum possible monetary liability under the guaranty in the Fiscal Year unless the guaranty is drawn upon, and (ii) one hundred percent (100%) of the Corporation's monetary liability under the guaranty which has been drawn upon, until such time as all amounts drawn upon the guaranty have been repaid to the Corporation; and

(8) provided further that, in reference to Long-Term Indebtedness, principal or interest shall be excluded from Debt Service to the extent that escrowed or trusteed funds (such as capitalized interest funds, defeasance escrows, and, only with respect to the final principal and/or

interest payment, debt service reserve funds), together with interest thereon, are available to pay such principal or interest.

"Debt Service Coverage Ratio" means with respect to any Long-Term Indebtedness, Income Available for Debt Service divided by Maximum Annual Debt Service.

"Debt Service Reserve Fund" means the fund by that name established pursuant to the Indenture.

"*Debt Service Reserve Fund Requirement*" means the lesser of (i) the maximum amount of principal and interest which shall be payable during the current or any succeeding Bond Year on the Bonds then outstanding (which interest shall be, with respect to any Bonds subject to an interest rate swap, the rate payable by the Corporation on such interest rate swap), (ii) an amount equal to 10% of the Proceeds of the Bonds or (iii) an amount equal to 125% of the average annual debt service with respect to the Bonds. For purposes of this definition, the Bonds which have not been converted to bear interest at Fixed Rates shall be deemed to bear interest the greater of (i) the average rate borne by such Bonds for the 12 complete months preceding the date of calculation and (ii) the Bond Buyer 25 Bond Revenue Index most recently published in The Bond Buyer, or any successor publication thereto, prior to the date of calculation. The Corporation shall provide written confirmation of the Debt Service Reserve Fund Requirement to the Bond Trustee upon request.

"Deed of Trust" means that certain Deed of Trust with Assignment of Leases and Rents, and Security Agreement and Fixture Filing, dated as of May 1, 2007 from the Corporation for the benefit of the Bond Trustee as security for the Bonds and the Corporation's obligations under the Liquidity Facility, the Bond Insurance Policies and all other Parity Debt.

"*Defaulted Interest*" means interest on any Bond which is payable but not duly paid on the date due.

"*Depository Participant*" means those broker-dealers, banks and other financial institutions reflected on the books of the Securities Depository as holding beneficial interests in the Bonds.

"*DTC*" means The Depository Trust Company.

"*Eligible Bonds*" means any Bonds other than Liquidity Facility Bonds, Bonds owned by, for the account of, or on behalf of, the Authority or the Corporation or any affiliate of the Corporation, or Bonds not covered by a Liquidity Facility.

"*Eligible Moneys*" means (a) moneys (i) paid or deposited by the Corporation or with the Bond Trustee, (ii) continuously held in any fund, account or sub account established hereunder which is subject to the lien of the Bond Indenture and in which no other moneys which are not Eligible Moneys are held and (iii) which have so been on deposit with the Bond Trustee for at least 367 days from their receipt by the Bond Trustee, during and prior to which period no petition by or against the Authority, the Corporation or any "affiliate" thereof (as defined in Title 11 of the United States Code) to which such moneys are attributable under any bankruptcy or similar law now or hereafter in effect shall have been filed and no bankruptcy or similar proceeding otherwise initiated (unless such petition or proceeding shall have been dismissed and such dismissal be final and not subject to appeal), together with investment earnings on such moneys; (b) moneys received by the Bond Trustee pursuant to the Liquidity Facility which are held in any fund, account or sub account established hereunder in which no other moneys which are not Eligible Moneys are held, together with investment earnings on such moneys; (c) proceeds from the remarketing of any Bonds pursuant to the provisions of the Bond Indenture to any person other than the Authority, the Corporation or any "affiliate" thereof (as defined in Title 11 of the United States

Code); (d) proceeds from the issuance and sale of refunding bonds, together with the investment earnings on such proceeds, if there is delivered to the Bond Trustee at the time of issuance and sale of such bonds an opinion of nationally recognized bankruptcy counsel which opinion is acceptable to the Bond Trustee, the Bond Insurer and each Rating Agency then maintaining a rating on the Bonds bearing interest at a Daily Rate or Weekly Rate (which opinion may assume that no Bondholders are "insiders" within the meaning of Title 11 of the United States Code) to the effect that the use of such proceeds and investment earnings to pay the principal of, premium, if any, or interest on the Bonds would not be avoidable as preferential payments under Section 547 of the United States Bankruptcy Code recoverable under Section 550 of the United States Bankruptcy Code should the Authority, the Corporation or any "affiliate" thereof (as defined in Title 11 of the United States Code) become a debtor in a proceeding commenced thereunder; and (e) moneys which are derived from any other source, together with the investment earnings on such moneys, if the Bond Trustee has received an opinion of nationally recognized bankruptcy counsel which opinion is acceptable to the Bond Trustee, the Bond Insurer and each Rating Agency then maintaining a rating on the Bonds bearing interest at a Daily Rate or Weekly Rate (which opinion may assume that no Bondholders are "insiders" within the meaning of Title 11 of the United States Code) to the effect that payment of such amounts to bondholders would not be avoidable as preferential payments under Section 547 of the United States Bankruptcy Code recoverable under Section 550 of the United States Bankruptcy Code should the Authority, the Corporation or any "affiliate" thereof (as defined in Title 11 of the United States Code) become a debtor in a proceeding commenced thereunder; provided that such proceeds, moneys or income shall not be deemed to be Eligible Moneys or available for payment of the Bonds if, among other things, an injunction, restraining order or stay is in effect preventing such proceeds, moneys or income from being applied to make such payment. For the purposes of this definition, the term "moneys" shall include cash and any investment securities including, without limitation, Government Obligations.

"*Event of Default*" means any occurrence or event specified in the Indenture.

"*Expiration Date*" means (i) the date upon which a Liquidity Facility is scheduled to expire (taking into account any extensions of such Expiration Date) in accordance with its terms without regard to any early termination thereof and (ii) the date upon which a Liquidity Facility terminates following voluntary termination by the Corporation pursuant to the Indenture.

"*Facilities*" means all land, leasehold interests and buildings and all fixtures and equipment (as defined in the Uniform Commercial Code or equivalent statute in effect in the state where such fixtures or equipment are located) used in connection therewith, of a Person.

"*Favorable Opinion of Bond Counsel*" means an unqualified Opinion of Counsel, which shall be Bond Counsel, to the effect that such action is permitted under the Bond Indenture and will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on a series of Tax-Exempt Bonds in gross income for federal income tax purposes, which Opinion may be based upon a ruling or rulings of the Internal Revenue Service, and may include any exceptions contained in the Opinion of Bond Counsel delivered upon original issuance of that series of Tax Exempt Bonds.

"*Fiscal Year*" means the 12-month period selected and designated as the official fiscal year of the Corporation.

"*Fitch*" means Fitch, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and, 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 at the written direction of the Corporation, with written notice to the Authority, the Bond Insurer, the Liquidity Facility Provider and the Bond Trustee.

"*Fund*" means any of the funds established pursuant to the Bond Indenture.

"*Governing Body*" means the board of directors, the board of trustees or similar group in which the right to exercise the powers of corporate directors or trustees is vested.

"*Government Obligations*" means (a) United States Government Obligations or (b) evidences of a direct ownership in future interest or principal payments on United States Government Obligations, which United States Government Obligations are held in a custodial account by a custodian satisfactory to the Bond Trustee pursuant to the terms of a custody agreement, and which are rated "AAA" by S&P or Moody's.

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

"Gross Revenues" means all receipts, revenues, income and other moneys received by or on behalf of the Corporation including contributions, gifts, grants, bequests, pledges whether in the form of cash or other property, revenues derived from the operation of the Corporation's Facilities, and all rights to receive the same, whether in the form of contract rights, accounts receivable, chattel paper or instruments, and the proceeds thereof and any insurance thereon, whether now owned or hereafter acquired by the Corporation; provided that gifts, grants, bequests, donations, contributions or pledges designated at the time of the making thereof by the donor thereof as being made for specific purposes, and the income therefrom to the extent required by such designation shall be excluded from Gross Revenues.

"Holder" or *"Bondholder,"* whenever used herein with respect to a registered Bond, means the person in whose name such Bond is registered.

"*Immediate Notice*" means notice by telephone, email transmission or telecopy to such address as the addressee shall have provided in writing, promptly followed by written notice by first class mail, postage prepaid; provided, however, that if any Person required to give an Immediate Notice shall not have been provided with the necessary information as to the telephone, email transmission or telecopier number of an addressee, Immediate Notice shall mean written notice by first class mail, postage prepaid.

"Income Available for Debt Service" means, unless the context provides otherwise, with respect to the Corporation as to any period of time, net income, or excess of revenues (including entrance fees, net of refunds) over expenses (excluding entrance fees amortized and excluding unrealized gains and losses on investments) before depreciation, amortization, and interest expense, as determined in accordance with generally accepted accounting principles; provided, that no determination thereof shall take into account:

(a) any gain or loss resulting from either the early extinguishment or refinancing of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business,

(b) gifts, grants, bequests, donations or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses,

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

(d) unrealized gains or losses resulting from changes in valuation of any Interest Rate Agreement or other hedging or derivative instruments;

(e) unrealized gains or losses from the write-down, reappraisal or revaluation of assets including investments for "other than temporary" declines in value; and

(f) extraordinary noncash items.

"Indebtedness" means all obligations for borrowed money, installment sales and capitalized lease obligations, incurred or assumed by the Corporation, including guaranties, long-term indebtedness, short-term indebtedness or any other obligation for payments of principal and interest with respect to money borrowed.

"Independent" means with respect to the Architect, the Accountant, the Insurance Consultant, the Consulting Engineer, any counsel and any Management Consultant, a person who is not a member of the governing body of the Corporation, or their respective Affiliates or an officer or employee of the Corporation, or partner, director, officer, member or substantial stockholder who is a member of the governing body of the Corporation, or their respective affiliates or an officer or employee of the Corporation, or their respective affiliates.

"*Independent Counsel*" means an attorney duly admitted to practice law before the highest court of any state and, without limitation, may include independent legal counsel for the Corporation, the Authority or the Bond Trustee.

"Insurance Consultant" means a Person selected by the Corporation who is Independent and has a general reputation for having the skill and expertise necessary to evaluate the insurance needs of retirement facilities.

"Insurance Trustee" means The Bank of New York.

"*Interest Fund*" means the fund by that name created under the Bond Indenture.

"*Interest Payment Date*" means:

(a) with respect to Bonds in a Daily Mode, or a Weekly Mode, for the Initial Period for the Bonds, June 1, 2007 and, thereafter the first Business Day of each month;

(b) with respect to Bonds in a Unit Pricing Mode (a) with an Interest Period of 180 days or less, the Purchase Date, and (b) with an Interest Period of 181 days or more, the first Business Day of the sixth calendar month following the month in which the change in Mode occurs and the Purchase Date;

(c) with respect to Bonds in a Term Rate Mode, the first March 1 or September 1 following the month in which the conversion to the Term Rate Mode occurs, each March 1 and September 1 thereafter and the Purchase Date;

(d) with respect to Bonds in the Fixed Rate Mode, the first March 1 or September 1 following the month in which the conversion to the Fixed Rate Mode occurs and each March 1 and September 1 thereafter;

(e) with respect to a Bond in the Auction Mode, the Business Day immediately following the last day of each Auction Period; provided that if an Auction Period exceeds one year, the Interest Payment Date shall be the first March 1 or September 1 following the month in which such Auction Period commences and each March 1 or September 1 thereafter during such Auction Period and the Business Day immediately following the last day of such Auction Period;

(f) any Mode Change Date;

(g) with respect to Bonds in an Indexed Mode, each March 1 or September 1 or such other dates determined by the Remarketing Agent pursuant to the Bond Indenture;

(h) the respective Maturity Dates of the Bonds; and

(i) with respect to Liquidity Facility Bonds, the dates set forth in the Liquidity Facility.

"*Interest Payment Period*" means the period commencing on the last Interest Payment Date to which interest has been paid on a Bond (or, if no interest has been paid from the Closing Date, commencing on the Closing Date) to, but not including, the Interest Payment Date on which interest is to be paid.

"*Interest Period*" means the period of time that an interest rate remains in effect, which period:

(a) with respect to Bonds in a Daily Mode, commences on a Business Day and extends to, but does not include, the next succeeding Business Day;

(b) with respect to Bonds in a Weekly Mode, commences on the first day such Bonds begin to accrue interest in the Weekly Mode and ends on the next succeeding Wednesday, and thereafter commences on each Thursday and ends on Wednesday of the following week;

(c) with respect to Bonds in a Unit Pricing Mode, shall be established by the Remarketing Agent pursuant to the Bond Indenture;

(d) with respect to Bonds in an Indexed Mode, commences on the first day Bonds begin to accrue interest in the Indexed Mode and ends on the day prior to the final Maturity Date of the Bonds;

(e) with respect to Bonds in a Term Rate Mode, initially, shall be from and including the Mode Change Date to, but not including, the Purchase Date established pursuant to the Indenture and thereafter shall be from and including such Purchase Date to but not including the next Purchase Date; provided that the Interest Period shall be at least 180 days in length.

(f) with respect to Bonds in an Auction Mode, shall be an Auction Period; and

(g) with respect to Bonds in a Fixed Rate Mode, shall be the Fixed Rate Period.

"*Interested Parties*" means the Authority, the Corporation, the Bond Trustee, the Tender Agent, the Paying Agent, the Bond Insurer, the Liquidity Facility Provider, the Remarketing Agent, the Auction Agent, the Broker-Dealer, the Market Agent and the Bondholders.

"Interest Rate Agreement" means an agreement, commonly known as an "interest rate swap", pursuant to which the Corporation agrees with a third party to pay or deliver to such party specified amounts in respect of a mutually agreed upon notional amount in exchange for such party's agreement to pay or deliver to the Corporation specified amounts in respect of such notional amount, all at such rates and over such periods of time as may be mutually agreed upon; provided, however, that no such agreement shall entail any exchange of principal or any assumption of liability for the payment of the principal of or interest on any particular indebtedness of the Corporation or such third party, as the case may be.

"*Letter of Representations*" means the Blanket Letter of Representations from the ABAG Finance Authority for Nonprofit Corporations to DTC dated June 27, 1995 and attached hereto as *Exhibit C*.

"*Liquidity Facility*" means, initially, a Standby Bond Purchase Agreement dated as of May 1, 2007 among the Liquidity Facility Provider, the Corporation and the Tender Agent and, thereafter, a standby bond purchase agreement, letter or line of credit or similar liquidity facility issued by a Liquidity Facility Provider which, by its terms, provides for the payment of the Purchase Price of Bonds tendered and not remarketed, furnished by the Corporation to the Tender Agent pursuant to the Loan Agreement, and any Substitute Liquidity Facility, which Liquidity Facility and all agreements relating to the obligation to reimburse the Liquidity Facility Provider for draws thereunder, if any, shall be approved by the Bond Insurer. The Corporation is not required by the Loan Agreement to provide a Liquidity Facility for the Bonds in the Auction Mode, Term Rate Mode, Indexed Mode, or Fixed Rate Mode.

"*Liquidity Facility Bonds*" means Bonds purchased by a Liquidity Facility Provider pursuant to a Liquidity Facility, but excluding Bonds no longer considered Liquidity Facility Bonds pursuant to the terms of such Liquidity Facility.

"*Liquidity Facility Deposit Account*" means the account by that name within the Purchase Fund established pursuant to the Bond Indenture.

"*Liquidity Facility Event of Default*" means (i) a wrongful failure by the Liquidity Facility Provider to honor its obligation to purchase Bonds under a Liquidity Facility or (ii) the institution of bankruptcy, receivership, liquidation or similar proceedings by or against the Liquidity Facility Provider, if not dismissed or stayed within 60 days.

"*Liquidity Facility Failure Purchase Date*" means the first Interest Payment Date which is at least 90 days subsequent to the date on which a Liquidity Facility Event of Default occurred.

"*Liquidity Facility Provider*" means, initially, KBC Bank N.V., a Belgian banking corporation acting through its New York Branch, and thereafter a commercial bank, savings institution, Bond Insurer or other financial institution acceptable to the Corporation and the Bond Insurer.

"*Loan Agreement*" means that certain Loan Agreement dated as of May 1, 2007 between the Corporation and the Authority, as it may from time to time be amended or supplemented.

"*Loan Agreement Default*" means any of the events specified in Section 9.1 of the Loan Agreement.

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

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

"*Mandatory Purchase Date*" means: (1) any Purchase Date for Bonds in the Unit Pricing Mode or the Term Rate Mode; (2) any Mode Change Date; (3) any Substitute Liquidity Facility Date or the second Business Day preceding any Expiration Date and (4) the second Business Day preceding any Termination Date.

"*Maturity Date*" means September 1, 2037, and with respect to any Bonds upon change to the Indexed Mode or the Fixed Rate Mode, such maturities as are determined pursuant to the Bond Indenture; provided that while any Bonds bear interest at the Auction Rate, such Bonds shall mature on and the Maturity Date thereof shall be the Interest Payment Date for such Bonds immediately preceding the stated Maturity Date.

"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.

"*Maximum Rate*" means the lesser of (a) 12% per annum, (b) the maximum interest rate permitted by law, and (c) with respect to Bonds in the Daily Mode, the Weekly Mode and the Unit Pricing Mode, the maximum interest rate provided by the Liquidity Facility to pay tenders of such Bonds.

"*Mode*" means, as the context may require, the Auction Mode, the Unit Pricing Mode, the Daily Mode, the Weekly Mode, the Indexed Mode, the Term Rate Mode or the Fixed Rate Mode.

"*Moody's*" means Moody's Investors Service, Inc., 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 at the written direction of the Corporation, with written notice to the Authority, the Bond Insurer, the Liquidity Facility Provider and the Bond Trustee.

"*Officer's Certificate*" means a certificate signed, in the case of a certificate delivered by a corporation, by its President, Vice President, Chief Financial Officer, Secretary or any other officer authorized to sign by resolution of the Governing Body of such corporation or, in the case of a certificate delivered by any other Person, the chief executive or chief financial officer of such other Person, in either case whose authority to execute such Certificate shall be evidenced to the satisfaction of the Bond Trustee.

"*Official Statement*" means an official statement prepared in connection with the issuance and sale of the Bonds.

"*Opinion of Bond Counsel*" means an unqualified Opinion of Counsel, which shall be Bond Counsel, containing the opinion specifically required by the provisions of the Bond Indenture, which Opinion may be based upon a ruling or rulings of the Internal Revenue Service, and may include any exceptions contained in the Opinion of Bond Counsel delivered upon original issuance of the Bonds.

"*Opinion of Counsel*" means a written opinion of counsel who is acceptable to the Authority in form and substance acceptable to the Authority, the Bond Trustee and the Bond Insurer (but only if the Bond Insurer is an addressee of such opinion).

"*Outstanding Bonds*" or "Bonds outstanding" mean all Bonds which have been duly authenticated and delivered by the Bond Trustee under the Bond Indenture, except:

(a) Bonds canceled after purchase in the open market or because of payment at or redemption prior to maturity;

(b) Bonds for the payment or redemption of which cash or United States Government Obligations shall have been theretofore deposited with the Bond Trustee (whether upon or prior to the maturity or redemption date of any such Bonds) in accordance with the Bond Indenture; provided that if such Bonds are to be redeemed prior to the maturity thereof, notice of such redemption shall have been given or arrangements satisfactory to the Bond Trustee shall have been made therefor, or waiver of such notice satisfactory in form to the Bond Trustee shall have been filed with the Bond Trustee;

(c) Bonds in lieu of which others have been authenticated under the Bond Indenture; and

(d) Bonds deemed tendered for purchase pursuant to the Bond Indenture.

"Parity Debt" means one or more of the following obligations of the Corporation which is, by its terms and in compliance with the Bond Indenture and the Loan Agreement 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: (i) the obligations of the Corporation with respect to Additional Bonds issued in accordance with the Bond Indenture, (ii) the Corporation's obligations under the Liquidity Facility, (iii) the Corporation's obligations to make regular payments (but not termination payments) under the Pre-Closing Interest Rate Agreements, any (iv) other Long-Term Indebtedness which is incurred by the Corporation in accordance with the provisions of the Loan Agreement.

"*Paying Agent*" means the Bond Trustee.

"Permitted Encumbrances" means:

(1) Any lien or encumbrance created or incurred in the ordinary course of business which does not secure, directly or indirectly, the repayment of borrowed money or the payment of installment sales contracts or capital leases individually or in the aggregate, and which does not materially impair the value or the utility of the property subject to such lien or encumbrance.

(2) Liens arising by reason of good faith deposits with any obligor in connection with tenders, leases or real estate, bid or contracts (other than contracts for the payment of money), deposits by any obligor to secure public or statutory obligations, or to secure, or in lieu of, surety, stay or appeal bonds, and deposits as security for the payment of taxes or assessments or other similar charges.

(3) Statutory rights of the United States of America to recover against any obligor by reason of any Federal loan, grant or subsidy made available to the Corporation and similar rights under state statutes.

(4) Any lien arising by reason of deposits to enable any obligor to maintain self-insurance or to participate in any funds established to cover any insurance risks or in connection with worker's compensation, unemployment insurance, pension or profit-sharing plans, or other social security, or to share in the privileges or benefits required for companies participating in such arrangements.

(5) Any judgment lien against any obligor so long as such judgment is being contested and execution thereon is stayed and so long as such judgment lien will not materially interfere with or impair the operations conducted on all property.

(6) (i) Rights reserved to or vested in any municipality or public authority by the terms of any right, power, franchise, grant, license, permit or provision of law, affecting any property, (ii) any liens on any property for taxes, assessments, levies, fees, water and sewer rents, and other governmental and similar charges and any liens of mechanics, materialmen, laborers, suppliers or vendors for work or services performed or materials furnished in connection with such property, which are not due and payable or which are being contested and execution thereon is stayed or which have been due for less than 90 days and (iii) easements, rights-of-way, servitudes, restrictions and other minor defects, encumbrances and irregularities in the title of any property that do not materially impair the use of such property in any manner.

(7) Any lien on the property of the Corporation that is existing on the Closing Date, provided that no lien so described may be extended, renewed or replaced by another lien, nor may it be modified to apply to any Property of any obligor not subject to such lien on the Closing Date, unless the lien qualifies as a Permitted Encumbrance; and provided further that no additional indebtedness may be incurred that is secured by such lien unless the foregoing conditions are met.

(8) Any liens on pledges of grants or gifts which secure payment of Short-Term Indebtedness.

(9) [Reserved.]

(10) Any lease and leaseback, lien security interest or similar arrangements entered into by the Corporation with an issuer, to the extent that such arrangement is required by law in connection with the issuance of bonded indebtedness. Such arrangements entered into on a parity lien for revenues with indebtedness insured by the Bond Insurer shall be subject to the approval of the Bond Insurer.

(11) Any lien with respect to property acquired after the Closing Date, which lien either secures the purchase price of such property or is a lien to which such property is subject at the time of its acquisition.

(12) Any lien imposed by the grantor, expressed or implied, on property of an obligor received as a gift, grant or bequest, pursuant to the terms thereof.

(13) Liens on moneys deposited by patients or others with the Corporation as security for, or as prepayment for, the cost of patient care; or any rights of residents of life care or similar facilities to endowment or similar funds deposited by or on behalf of such residents.

(14) Operating leases or ground leases of five years or less whereunder any obligor is the lessor; or any license or other use agreement made with respect to property where revenues generated inure to the benefit of the Corporation.

(15) Any lien on money (or the investment made with such money) held in any depreciation reserve, debt service reserve, construction, debt service or similar fund and granted by an obligor to secure payment of indebtedness (including any commitment indebtedness, whether or not then drawn upon); and any lien on money (or the investment made with such money) held in any escrow or similar fund to defease indebtedness.

(16) Liens securing non-recourse Indebtedness.

(17) Any lien on property (other than real estate) in the nature of a purchase money security interest resulting from installment sale agreements or borrowings, financing leases, or similar agreements relating to the acquisition of property; or liens of a lessee or a vendee on the property being leased or sold under a lease, installment sale or similar agreement.

(18) Such minor defects and irregularities of title as normally exist with respect to property similar in character to the property involved, and which do not materially adversely affect the value of or materially impair the property affected thereby.

(19) Any lien on pledges, gifts or grants to be received in the future, including any income derived from the investment thereof and liens on or in property given, bequeathed or devised to the owner thereof existing at the time of such gift, bequest or devise, provided that (i) such liens attach solely to the property which is the subject of such gift, bequest or devise, and (ii) the indebtedness secured by such liens is not assumed by the Corporation.

(20) The Deed of Trust and any other lien securing all Parity Debt permitted hereunder or under the Loan Agreement.

(21) Liens securing Indebtedness the aggregate value of which shall not exceed 10% of the value of all Property.

(22) The lien and charge of the Bond Indenture and the Loan Agreement.

(23) 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 its board of directors, are adequate.

(24) Present or future valid zoning laws and ordinances.

(25) Statutory liens arising in the ordinary course of business which are not delinquent or are being contested in good faith by the Corporation

(26) 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 healthcare industry.

(27) Any other liens and encumbrances shown in a policy of title insurance issued on the Closing Date by Commonwealth Land Title Company or which are otherwise specifically approved in writing by the Bond Insurer.

"*Person*" means any natural person, firm, joint venture, association, partnership, business trust, corporation, public body, agency or political subdivision thereof or any other similar entity.

"Pre-Issuance Interest Rate Agreements" means the Interest Rate Agreement entered into by the Corporation prior to the Closing Date with respect to the Series 2007A Bonds, the Series 2007B Bonds and the Additional Bonds to be issued for the purpose of refunding the Series 2007B Bonds.

"*Principal Office*" means, when used with respect to the Bond Trustee, the corporate trust office of the Bond Trustee identified as such for the performance of the functions in question, and, when used with respect to any other entity, means the principal office of such entity or such other office of such entity as may be designated by that entity in writing to the Bond 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 Bond Trustee at which, at any particular time, its corporate trust agency business shall be conducted.

"*Proceeds*" means the first offering price of the Bonds.

"Project" means the payment of certain costs which have been, or are to be incurred by the Corporation in connection with the construction of, and acquisition of certain equipment for, a portion of the Facilities of the Corporation.

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

"*Purchase Contract*" means a Bond Purchase Contract between Cain Brothers & Company LLC and the Authority providing for the sale of the Bonds.

"*Purchase Date*" means with respect to Bonds (i) during the Unit Pricing Mode, the Business Day following the end of each Interest Period, (ii) during the Term Rate Mode, the Business Day following the end of each Interest Period, and (iii) during the Daily Mode or the Weekly Mode, a Business Day for which notice of tender as required by the Bond Indenture has been given.

"*Purchase Fund*" means the fund by that name created under the Indenture.

"*Purchase Price*" means (i) an amount equal to the principal amount of any Bonds purchased on any Purchase Date, plus, in the case of any purchase of Bonds in the Daily Mode or the Weekly Mode, accrued and unpaid interest thereon, if any, to the Purchase Date, or (ii) an amount equal to the principal amount of Bonds purchased on a Mandatory Purchase Date, plus accrued and unpaid interest thereon, if any, to the Mandatory Purchase Date.

"*Qualified Investments*" means, to the extent permitted by applicable law:

(i) 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.

(ii) Investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (a) the Export-

Import Bank of the United States, (b) the Federal Housing Administration, (c) the Government National Mortgage Association ("GNMA"), (d) the Rural Economic Community Development Administration (formerly known as the Farmers Home Administration), (e) the Federal Financing Bank, (f) the Department of Housing and Urban Development, (g) the General Services Administration, (h) the U.S. Maritime Administration or (i) the Small Business Administration.

(iii) Investments in direct obligations in any of the following agencies which obligations are not fully guaranteed by the full faith and credit of the United States (a) senior obligations by the Federal Home Loan Bank System, (b) senior debt obligations and participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) issued by the Federal Home Loan Mortgage Corporation ("FHLMC") or senior debt obligations and mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) of the Federal National Mortgage Association ("FNMA") (c) obligations of the Resolution Funding Corporation ("REFCORP") or (d) senior debt obligations of the Student Loan Marketing Association ("SLMA") (excluding securities that do not have a fixed par value/or whose terms do not promise a fixed dollar amount at maturity or call date).

(iv) Investments in (a) U.S. dollar denominated deposit accounts, federal funds, bankers acceptances, and certificates of deposit of any bank whose short term debt obligations are rated "A-1+" by S&P and "P-1" by Moody's and maturing no more than 360 calendar days after the date of purchase (holding company ratings are not considered as rating of the bank) or (b) Certificates of deposit of any bank, which certificates are fully insured by the Federal Deposit Insurance Corporation ("FDIC"), which certificates of deposit may include those of the Bond Trustee and its affiliates, with the Bond Insurer's consent.

(v) Investments in money market funds rated "AAAm" or "AAAm-G" by S&P, including funds for which the Bond Trustee, its parent holding company, if any, or any affiliates or subsidiaries of the Bond Trustee provide investment advisory or other management services, with the Bond Insurer's consent.

(vi) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's, Inc. and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase.

(vii) Pre-refunded municipal obligations defined as follows: any bonds or other obligations rated "AAA" by S&P and "Aaa" by Moody's (based on an irrevocable escrow account or fund) of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice.

(viii) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A1/A+" or higher by both Moody's and S&P.

The value of the above investments (paragraphs i-viii) shall be determined as follows:

"*Value*", which shall be determined as of the end of each quarter, means that the value of any investments shall be calculated as follows:

a) for securities:

(1) computed on the basis of the bid price last quoted by the Federal Reserve Bank of New York on the valuation date and printed in the Wall Street Journal or the New York Times; or

(2) a valuation performed by a nationally recognized and accepted pricing service whose valuation method consists of the composite average of various bid price quotes on the valuation date; or

(3) the lower of two dealer bids on the valuation date. The dealer or their parent holding companies must be rated at least investment grade by S&P and Moody's and must be market makers in the securities being valued.

b) as to certificates of deposit and banker's acceptances: the face amount thereof, plus accrued interest.

(ix) Repurchase agreements with (a) any domestic bank, or domestic branch of a foreign bank, the long term debt which is rated at least "A" by S&P and "A2" by Moody's; or (b) any broker-dealer with "retail customers" or a related affiliate thereof which broker dealer has, or the parent company (which guarantees the provider) of which has, long term debt rated at least "A" by S&P and "A2" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (c) any other entity rated at least "A" by S&P and "A2" by Moody's and acceptable to the Bond Insurer, provided that:

a) the repurchase agreement is collateralized with the obligations described in paragraphs (i) or (ii) above; or with obligations described in paragraph (iii) (a) and (b) above.

b) the trustee or other collateral agent will value the collateral securities at least weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage in not restored within (2) business days.

c) the market value of the collateral must be maintained at: 104% of the total principal of the repurchase agreement for obligations described in paragraphs (i) and (ii); 105% of the total principal of the repurchase agreement for obligations described in paragraph (iii) (a) and (b) above.

d) the trustee or a third party acting solely as agent therefore or for the issuer ("the "Holder of the Collateral") has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than be means of entries on the transferor's books).

e) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, and substituted collateral and all proceeds thereof.

f) the repurchase agreement shall provide that if during its term the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" by S&P or "A3" by Moody's, as appropriate, the provider must, at the direction of the issuer or the trustee (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the Authority or the Trustee.

(x) Investment agreements with (a) a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long term debt of which, or, in the case of a guaranteed corporation the long term debt is rated at least "AA" by S&P and "Aa2" by Moody's; or (b) a monoline municipal bond insurance company or a subsidiary thereof whose claims paying ability is rated at least "AA" by S&P and "Aa2" by Moody's; provided, that in all cases, by the terms of the investment agreement:

a) interest payments are to be made to the Trustee at least one business day prior to debt service payment dates on the Bonds and in such amounts as are necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Indenture specifically requires the Issuer or the Trustee to give notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

c) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

d) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified hereunder;

e) the term of the investment agreement does not exceed seven years or such longer term as approved by the Bond Insurer. A Bond Insurer approved investment agreement for the Debt Service Reserve Fund may extend until the maturity for the Bonds;

f) the Bond Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Authority and the Bond Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Bond Insurer;

g) the investment agreement shall provide that if during its term:

(1) the provider's rating by either S&P or Moody's falls below 'AA-' or 'Aa3' respectively, the provider must, at the direction of the Authority or the Bond Trustee (who shall give such direction if, but only if, so directed by the Bond Insurer), within 10 days of receipt of such direction, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Authority, the Bond Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") Permitted Collateral which are free and clear of any third-party liens or claims at the Collateral Levels set forth below; or (ii) repay the principal of and accrued but unpaid interest on the investment (the choice of (i) or (ii) above shall be that of the Authority or the Bond Trustee, as appropriate), and

(2) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" or "A3" by S&P or Moody's, as appropriate, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if, but only if, so directed by the Bond Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment in either case with no penalty or premium to the Authority or the Bond Trustee;

h) The investment agreement shall state and an opinion of counsel shall be rendered that the trustee has a perfected first priority security interest in the Permitted Collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the trustee is in possession); and

i) the investment agreement must provide that if during its term

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Authority or the Bond Trustee (who shall give such direction if so directed by the Bond Insurer), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or the Bond Trustee, as appropriate;

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Authority or the Bond Trustee, as appropriate;

(3) the provider fails to perform any of its obligations under the Investment Agreement (other than obligations related to payment or rating) and such breach continues for ten (10) Business Days or more after written notice thereof is given by the Trustee to the provider, it shall be an Event of Default; or

(4) a representation or warranty made by the provider proves to have been incorrect or misleading in any material respect when made, it shall be an Event of Default

Permitted Collateral for Investment Agreements ("Permitted Collateral"):

A. U.S. direct Treasury obligations,

B. Senior debt and/or mortgage backed obligations of GNMA, FNMA or FHLMC and other government sponsored agencies backed by the full faith and credit of the U.S. government and approved by the Bond Insurer.

C. Collateral levels must be 104% of the total principal deposited under the investment agreement for U.S. direct Treasury obligations, GNMA obligations and full faith and credit U.S. government obligations and 105% of the total principal deposited under the investment agreement for FNMA and FHLMC.

D. The collateral must be held be a third party, segregated and marked to market at least weekly.

(xi) Forward delivery agreements approved in writing by the Bond Insurer (supported by appropriate opinions of counsel).

(xii) Other forms of investments approved in writing by the Bond Insurer.

"*Rating Agencies*" means Moody's, Fitch or S&P, and their respective successors and assigns.

"*Rating Category*" means one of the general rating categories of the Rating Agencies without regard to any refinement or gradation of such rating category by numerical modifier or otherwise.

"*Rebate Amount*" means the excess of the future value, as of a computation date, of all receipts on nonpurpose investments (as defined in Section 1.148-1(b) of the Income Tax Regulations) over the future

value, as of that date, of all payments on nonpurpose investments, all as provided by regulations under the Code implementing Section 148 thereof.

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

"*Record Date*" means (i) with respect to Bonds in the Unit Pricing Mode, Daily Mode, Weekly Mode or Auction Mode, the day (whether or not a Business Day) immediately preceding each Interest Payment Date, and (ii) with respect to Bonds in an Indexed Mode, a Term Rate Mode or a Fixed Rate Mode, the fifteenth day (whether or not a Business Day) of the month immediately preceding each Interest Payment Date.

"*Redemption Date*" means, when used with respect to any Bond to be redeemed, the date fixed for such redemption pursuant to Article V hereof.

"*Redemption Fund*" means the fund by that name created under the Bond Indenture.

"*Redemption Price*" means, with respect to any Bond (or portion thereof), the price to be paid upon redemption as set forth in Article V of the Bond Indenture.

"*Refunded Bonds*" means the California Health Facilities Financing Authority Health Facility Insured Revenue Bonds (Casa de las Campanas) 1998 Series A.

"*Registrar*" means the Bond Trustee, as keeper of the Bond Register.

"*Remarketing Agent*" means Cain Brothers & Company, Incorporated or any subsequent remarketing agent appointed by the Corporation in accordance with the Bond Indenture and not objected to by the Bond Insurer or the Liquidity Facility Provider and at the time serving as such under the Remarketing Agreement.

"*Remarketing Agreement*" means that certain remarketing agreement dated as of May 1, 2007 between the Corporation and Cain Brothers & Company, LLC or any subsequent remarketing agreement between the Corporation and a Remarketing Agent, as such agreement may from time to time be amended and supplemented, to remarket the Bonds delivered or deemed to be delivered for purchase by the Holders thereof.

"*Remarketing Proceeds Account*" means the account by that name within the Purchase Fund established pursuant to the Bond Indenture.

"*Required Stated Amount*" means, at any time of calculation with respect to any Bonds in the Daily Mode or the Weekly Mode, an amount equal to the aggregate principal amount of all Bonds then Outstanding, together with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Rate) for the period specified in a Certificate of the Corporation to be the minimum period specified by the Rating Agencies then rating the Bonds as necessary to maintain the short-term rating of the Bonds.

"*Securities Depository*" means DTC and its successors and assigns or if (i) the then-Securities Depository resigns from its functions as depository of the Bonds or (ii) the Authority discontinues use of the then-Securities Depository pursuant to the Indenture, any other securities depository which is selected by the Authority at the request of the Corporation.

"*S&P*" means Standard & Poor's Ratings Service, a division of The McGraw Hill Companies, Inc., a corporation existing under the laws of New York, its successors and assigns, and, 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 at the written direction of the Corporation, with written notice to the Authority, the Bond Insurer, the Liquidity Facility Provider and the Bond Trustee.

"Series 2007A Bonds" means ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.), Series 2007A.

"Series 2007B Bonds" means ABAG Finance Authority for Nonprofit Corporations Taxable Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007B.

"Sinking Fund Installment" means a payment to the Sinking Fund required pursuant to the Bond Indenture.

"*Special Record Date*" means the date fixed by the Bond Trustee pursuant to the Bond Indenture for the payment of Defaulted Interest.

"*State*" means the State of California.

"*Substitute Liquidity Facility*" means a Liquidity Facility after the initial Liquidity Facility, furnished to the Bond Trustee pursuant to the Loan Agreement.

"*Substitute Liquidity Facility Date*" means the date a Substitute Liquidity Facility is furnished to the Bond Trustee by the Corporation pursuant to the Loan Agreement.

"*Tax Certificate*" means either (a) the Certificate as to Tax, Arbitrage, and Other Matters signed by the Corporation concurrently with the issuance of the Bonds, or (b) the Certificate as to Tax, Arbitrage, and Other Matters signed by the Authority concurrently with the issuance of the Bonds, as determined by the context.

"Tax Exempt Bonds" means the Series 2007A Bonds and any series of Additional Bonds issued with the intent that interest thereon shall be excluded from gross income for federal income tax purposes.

"*Tax-Exempt Organization*" means any governmental unit, or a Person organized under the laws of the United States of America or any state thereof which is (i) an organization described in Section 501(c)(3) of the Code or is treated as an organization described in Section 501(c)(3) of the Code and is not a private foundation under Section 509(a) of the Code, and (ii) exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect, except for income from an unrelated trade or business as defined in Section 513(a) of the Code.

"*Tender Agent*" means any tender agent appointed in accordance with the Bond Indenture. Initially, the Bond Trustee will act as Tender Agent.

"*Term Rate*" means the per annum interest rate with respect to any Bonds in the Term Rate Mode determined pursuant to the Bond Indenture.

"*Term Rate Mode*" means the Mode during which any Bonds bear interest at the Term Rate.

"*Termination Date*" means the date specified in a notice of non-immediate termination given by a Liquidity Facility Provider to the Bond Trustee specifying the date on which such Liquidity Facility Provider will no longer be obligated to purchase Bonds (or otherwise advance funds for the purchase of tendered Bonds) pursuant to a Liquidity Facility which date must be at least ten (10) days after the date of receipt of such notice by the Bond Trustee.

"*Unassigned Rights*" means the Authority's right to receive payment of its fees and expenses, the Authority's rights to indemnification under the Loan Agreement, the Authority's right to execute and deliver supplements and amendments to the Loan Agreement, the Authority's rights to receive notices under the Loan Agreement and the Authority's rights to give consents and make certain appointments under the Loan Agreement.

"*United States Government Obligations*" means noncallable direct obligations of, or noncallable obligations (which shall not include shares or investments in unit investment trusts or mutual funds) the timely payment of the principal of and interest on which is fully guaranteed by, the United States of America.

"*Unrelated Trade or Business*" means an activity which constitutes an "unrelated trade or business" within the meaning of Section 513(a) of the Code without regard to whether such activity results in unrelated trade or business income subject to taxation under Section 512(a) of the Code.

"*Weekly Mode*" means the Mode during any Bonds bear interest at the Weekly Rate.

"*Weekly Rate*" means an interest rate that is determined on a weekly basis with respect to any Bonds in the Weekly Mode pursuant to the Bond Indenture.

"*Written Request*" means with reference to the Authority, a request in writing signed by an Authorized Officer of the Authority and with references to the Corporation means a request in writing signed by the President or a Vice President of the Corporation, or any other officers designated by the Authority or the Corporation, as the case may be.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

The Bond Indenture contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Bond Indenture for a full and complete statement of the Bond Indenture's provisions.

FUNDS

1. Expense Fund. The Bond Trustee shall establish a separate account to be known as the "Expense Fund." An initial deposit to the credit of the Expense Fund is to be made in accordance with the Bond Indenture. Amounts on deposit in the Expense Fund shall be disbursed upon receipt by the Bond Trustee of a requisition in the form attached to the Bond Indenture for the payment of Costs of Issuance. At such time as the Bond Trustee is furnished with a Written Request of the Corporation stating that all Costs of Issuance have been paid, and in no event later than October 1, 2007, the Bond Trustee shall transfer any moneys remaining in the Expense Fund to the Project Fund and the Bond Trustee shall close the Expense Fund. Each such requisition shall be sufficient to evidence to the Bond Trustee the facts stated therein and the Bond Trustee shall have no duty to confirm the accuracy of such facts.

2. Project Fund. The Bond Trustee shall establish, maintain and hold in trust a separate fund designated as the "Project Fund." The moneys in the Project Fund shall be used to pay the costs of the Project.

Before any payment from the Project Fund shall be made, the Corporation shall file or cause to be filed with the Bond Trustee a requisition in the form provided in the Bond Indenture.

Upon receipt of each such requisition, the Bond Trustee shall pay the amount set forth in such Requisition as directed by the terms thereof out of the Project Fund. The Bond Trustee need not make any such payment if it has received notice of any lien, right to lien or attachment upon, or claim affecting the right to receive payment of, any of the moneys to be paid, which has not been released or will not be released simultaneously with such payment. The Bond Trustee shall not be responsible for the accuracy or correctness of any requisition.

When the Project shall have been completed, the following shall be delivered to the Bond Trustee by the Corporation a Certificate 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). Upon the receipt of such certificate, the Bond Trustee shall, as directed by said Certificate of the Corporation, transfer any remaining balance in the Project Fund to the Redemption Fund. Upon such transfer and the final disbursement of any remaining funds, the Project Fund shall be closed.

3. Revenue Fund. The Authority shall establish with the Bond Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Revenue Fund." Loan Payments under the Loan Agreement, as and when received by the Bond Trustee, shall be deposited in the Revenue Fund and shall be held therein until disbursed as provided in the Bond Indenture. Pursuant to the assignment and pledge of Loan Payments under the Loan Agreement set forth in the granting clauses contained in the Bond Indenture, the Authority will direct the Corporation to make payments under the Loan Agreement directly to the Bond Trustee when and as the same become due and payable by the Corporation under the terms of the Loan Agreement.

If on or before the date any payment under the Loan Agreement is due, the Bond Trustee has not received such payment, the Bond Trustee shall give immediate telephonic notice promptly confirmed in writing to the Corporation of the nonpayment.

4. Interest Fund. The Authority shall establish with the Bond Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Interest Fund." Except for income thereon which is to be transferred to other funds under the Bond Indenture or to the Rebate Fund, and except as provided in the Bond Indenture, moneys on deposit in the Interest Fund may be used only for the purpose of paying the interest on the Bonds as the same becomes due and payable (including accrued interest on any Bonds purchased or redeemed prior to maturity pursuant to the Bond Indenture).

On or prior to three Business Days next preceding each Interest Payment Date, the Bond Trustee shall deposit in the Interest Fund from moneys in the Revenue Fund an amount which will be equal to the interest to become due on the Bonds on such Interest Payment Date; provided, however, that no deposit pursuant to this paragraph need be made to the extent that there is a sufficient amount already on deposit in the Interest Fund for that purpose. If sufficient funds to make the transfers described in this caption are not available in the Revenue Fund on the third Business Day preceding an Interest Payment Date, the Bond Trustee will give Immediate Notice thereof to the Corporation, promptly confirmed in writing. At the time of such notice, if the interest rate for all Interest Periods in the Interest Payment Period ending on

such Interest Payment Date has not yet been determined, the Bond Trustee shall use an assumed interest rate of the Maximum Rate for Bonds bearing interest in such a Mode for the number of days during such period that such interest rate is not yet available.

In connection with any partial redemption or defeasance prior to maturity of the Bonds, the Bond Trustee may, at the written request of the Corporation, use any amounts on deposit in the Interest Fund (which amounts must be Eligible Moneys for Bonds bearing interest at a Daily Mode or Weekly Mode when a Liquidity Facility is in effect) in excess of the amount needed to pay the interest on the Bonds remaining outstanding on the first Interest Payment Date occurring on or after the date of such redemption or defeasance to pay or provide for the payment of the principal of and interest on the Bonds to be redeemed or defeased or as otherwise directed by the Corporation if the Bond Trustee and the Bond Insurer shall have received an Opinion of Bond Counsel to the effect that such transfer will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes.

5. Bond Sinking Fund. The Bond Trustee shall establish and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Bond Sinking Fund." Except for income thereon which is to be transferred to other funds under the Bond Indenture or to the Rebate Fund, and except as provided in the Bond Indenture, moneys on deposit in the Bond Sinking Fund may be used only to pay principal of and to mandatorily redeem Bonds. Nothing contained in this paragraph shall limit the ability of the Bond Insurer to be paid amounts due and owing to it with respect to the Bonds as subrogee of a Bondholder.

On or prior to three Business Days preceding each Maturity Date and each mandatory Bond Sinking Fund redemption date, after making the deposits required by the Bond Indenture, the Bond Trustee shall deposit in the Bond Sinking Fund from moneys in the Revenue Fund an amount which is equal to the principal of the Bonds next to become due by maturity or mandatory Bond Sinking Fund redemption. No such deposit need be made, however, to the extent that there is a sufficient amount already on deposit and available for such purpose in the Bond Sinking Fund to be applied to such next maturity or mandatory Bond Sinking Fund redemption payment. If sufficient funds to make the transfers to the Bond Sinking Fund described in this caption are not available in the Revenue Fund on the third Business Day preceding any Maturity Date or mandatory Bond Sinking Fund redemption date, the Bond Trustee will give Immediate Notice thereof to the Corporation, promptly confirmed in writing.

Moneys on deposit in the Bond Sinking Fund, other than income earned thereon which is to be transferred to other funds created under the Bond Indenture or to the Rebate Fund and except as otherwise provided by the Bond Indenture, shall be applied by the Bond Trustee to pay principal on the Bonds as it becomes due and to redeem the Bonds in accordance with the mandatory Bond Sinking Fund redemption schedule provided for in the Bond Indenture. In lieu of such mandatory Bond Sinking Fund redemption, the Bond Trustee shall, at the Written Request of the Corporation, purchase for cancellation an equal principal amount of Bonds of the series and maturity to be redeemed in the open market identified by the Corporation at prices specified by the Corporation not exceeding the principal amount of the Bonds being purchased plus accrued interest with such interest portion of the purchase price to be paid from the Interest Fund and the principal portion of such purchase price to be paid from the Bond Sinking Fund. In addition, the amount of Bonds to be redeemed on any date pursuant to the mandatory Bond Sinking Fund redemption schedule shall be reduced by the principal amount of Bonds of the series and maturity required to be redeemed which are acquired by the Corporation and delivered to the Bond Trustee for cancellation.

In connection with any partial redemption or defeasance prior to maturity of the Bonds, the Bond Trustee may, at the written request of the Corporation, use any amounts on deposit in the Bond Sinking

Fund (which amounts must be Eligible Moneys for Bonds bearing interest at a Daily or Weekly Mode when a Liquidity Facility is in effect) in excess of the amount needed to pay principal on the Bonds remaining outstanding on the first principal or mandatory sinking fund payment date occurring on or after the date of such redemption or defeasance to pay or provide for the payment the principal of and interest on the Bonds to be redeemed or defeased or as otherwise directed by the Corporation if the Bond Trustee and the Bond Insurer shall have received an Opinion of Bond Counsel to the effect that such transfer will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes.

6. Debt Service Reserve Fund. The Bond Trustee shall establish and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Debt Service Reserve Fund." An initial deposit to the Debt Service Reserve Fund shall be made in accordance with the Bond Indenture. Except as described below, moneys on deposit in the Debt Service Reserve Fund shall only be used to make up any deficiencies in the Interest Fund and the Bond Sinking Fund (in the order listed).

Qualified Investments (except those described in paragraph (x) in the definition thereof) on deposit in the Debt Service Reserve Fund shall have maturities not longer than ten (10) and shall have an average life which is no longer than five (5) years.

All Qualified Investments in the Debt Service Reserve Fund shall be valued at their market value at least quarterly on or before March 1, June 1, September 1 and December 1 (or more frequently as may be reasonably requested by the Corporation) and such valuation shall be reported within thirty (30) days to the Corporation. Any amount in the Debt Service Reserve Fund in excess of 100% of the Debt Service Reserve Fund Requirement shall then be transferred to the Revenue Fund. To the extent that amounts in the Debt Service Reserve Fund are less than one hundred percent (100%) of the Debt Service Reserve Fund Requirement (not taking into account, for purposes of calculating the amount to be paid pursuant to this paragraph any withdrawals permitted by the first paragraph of this section, which shall be replenished from moneys on deposit in the Revenue Fund), the Corporation shall, following receipt of notice of such quarterly valuation, pay to the Bond Trustee, in three equal monthly payments, an amount sufficient to increase the balance in the Debt Service Reserve Fund to the Debt Service Reserve Fund Requirement.

Notwithstanding the foregoing, the Corporation shall replenish any withdrawal from the Debt Service Reserve Fund in twelve equal monthly payments immediately succeeding such withdrawal. The Bond Trustee shall give notice to the Bond Insurer no later than two Business Days after the transfer of any amounts on deposit in the Debt Service Reserve Fund to the Interest Fund and/or the Bond Sinking Fund to pay interest on or principal of the Bonds.

In lieu of depositing and maintaining moneys in the Debt Service Reserve Fund during a Funding Period, the Corporation may, with the written consent of the Bond Insurer, deliver to the Bond Trustee for deposit in the Debt Service Reserve Fund an irrevocable letter of credit issued by a domestic or foreign bank with a credit rating at the time of such delivery in one of the two highest Rating Categories of any Rating Agency. Any such letter of credit shall (i) permit the Bond Trustee to draw amounts thereunder which, together with any amounts on deposit in, or surety bond policy available to fund the Debt Service Reserve Fund, are not less than the Debt Service Reserve Fund Requirement and (ii) shall contain no restrictions on the ability of the Bond Trustee to receive payment thereunder other than a certification by the Bond Trustee that the funds drawn thereunder are to be used to pay debt service on the Bonds. Such letter of credit shall provide that the Bond Trustee shall receive payment thereunder prior to any expiration or termination thereof and whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied. The Bond Trustee shall make a drawing on such letter of credit (a) whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied and (b) 30 days prior to any expiration or termination thereof; provided, however, that no

such drawing need be made if other moneys (including funds paid under an irrevocable surety bond) are available in the Debt Service Reserve Fund in the amount of the Debt Service Reserve Fund Requirement.

In lieu of depositing and maintaining moneys in the Debt Service Reserve Fund, the Corporation may, with the written consent of the Bond Insurer, deliver to the Bond Trustee for deposit in the Debt Service Reserve Fund an irrevocable surety bond issued by a bond insurance company with a credit rating or claims-paying ability at the time of such delivery in one of the two highest Rating Categories of any Rating Agency. Any such surety bond shall (i) permit the Bond Trustee to obtain amounts thereunder which, together with any amounts on deposit in, or letter of credit available to fund, the Debt Service Reserve Fund, are not less than the Debt Service Reserve Fund Requirement and (ii) shall contain no restrictions on the ability of the Bond Trustee to receive payment thereunder other than a certification by the Bond Trustee that the funds drawn thereunder are to be used to pay debt service on the Bonds. Such surety bond shall provide that the Bond Trustee shall receive payment thereunder prior to any expiration or termination thereof and whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied. The Bond Trustee shall make a drawing under such surety bond (a) whenever moneys are required for the purposes for which Debt Service Reserve Fund moneys may be applied and (b) 30 days prior to any expiration or termination thereof; provided, however, that no such drawing need be made if other moneys (including funds drawn under a letter of credit) are available in the Debt Service Reserve Fund in the amount of the Debt Service Reserve Fund Requirement.

If at any time one or more letters of credits and/or one or more surety bonds are on deposit in the Debt Service Reserve Fund, the Bond Trustee shall draw on the instruments on a pro rata basis.

In connection with any partial redemption or defeasance prior to maturity of the Bonds, the Bond Trustee may, at the request of the Corporation and upon notice to the Bond Insurer, use any amounts on deposit in the Debt Service Reserve Fund (which amounts must be Eligible Moneys for Bonds bearing interest at a Daily Mode or Weekly Mode when a Liquidity Facility is in effect) in excess of the Debt Service Fund Requirement after such redemption to pay the principal of or the principal portion of the Redemption Price of said Bonds to be redeemed or defeased or as otherwise directed by the Corporation if the Bond Trustee and the Bond Insurer shall have received an Opinion of Bond Counsel to the effect that such transfer will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes.

7. Redemption Fund. The Authority shall establish with the Bond Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Redemption Fund." In the event of (i) prepayment by or on behalf of the Corporation of amounts payable under the Loan Agreement, including prepayment with condemnation or insurance proceeds or proceeds of a sale consummated under threat of condemnation, or (ii) deposit with the Bond Trustee by the Corporation or the Authority of moneys from any other source for redeeming Bonds or the purchase of Bonds for cancellation, except as otherwise provided in the Bond Indenture, such moneys shall be deposited in the Redemption Fund. Moneys on deposit in the Redemption Fund shall be used first, to make up any deficiencies existing in the Interest Fund and the Bond Sinking Fund (in the order listed) and second, if such amounts are Eligible Moneys for Bonds bearing interest at a Daily or Weekly Mode when a Liquidity Facility is in effect, for the redemption or purchase of Bonds in accordance with the provisions of the Bond Indenture.

8. Rebate Fund. Section 148(f) of the Code, as implemented by Sections 1.148 0 to 1.148 11 of the Income Tax Regulations (the "Rebate Provisions") requires that, among other requirements and with certain exceptions, the Authority pay to the United States of America the Rebate Amount owed with respect to the Bonds. The Corporation shall timely make or have made all necessary calculations of the

Rebate Amount as required to comply with the requirements of the Bond Indenture and the Rebate Provisions and shall deposit or cause the Bond Trustee to deposit into the Rebate Fund from investment earnings on moneys deposited in the other funds and accounts created hereunder, or from any other funds held by the Bond Trustee and available for such purpose, or from other moneys paid by the Corporation to the Bond Trustee for such purpose, the amount necessary to increase the balance in the Rebate Fund to the Rebate Amount. The Corporation shall annually certify in writing the Rebate Amount, if any (and if none is due, that none is due), and the calculations determining the same to the Bond Trustee, and shall instruct the Bond Trustee in writing to make from the Rebate Fund (or to the extent necessary, from other funds of the Corporation delivered to the Bond Trustee) all required payments to the United States of America of the Rebate Amount as shall be required to satisfy the Rebate Provisions, and to the extent the funds held by the Bond Trustee in the Rebate Fund are not sufficient to make payments of such Rebate Amount, the Corporation shall pay to the Bond Trustee an amount necessary to make up such deficiency. In complying with the foregoing, the Corporation may rely upon any instructions from and any Opinions of Bond Counsel, including, without limitation, a letter to be delivered by Bond Counsel to the Corporation and the Bond Trustee on the date of issuance of the Bonds, and upon any certificates, opinions or calculations prepared by certified public accountants or other consultants reasonably selected by the Corporation.

The Authority and the Bond Trustee shall cooperate with the Corporation in complying with the requirements summarized here and shall promptly provide to the Corporation, upon its request, any information in the possession of the Authority or the Bond Trustee concerning the investment of Gross Proceeds (as defined in the next sentence) of any Series of Bonds and all other information in the possession of the Authority or the Bond Trustee, of benefit to the Corporation in complying with the requirements described herein. "Gross Proceeds" for this purpose include (a) proceeds of any Series of Bonds, (b) amounts received from the Corporation pursuant to the Loan Agreement with respect to that Series of Bonds, (c) all funds and accounts subject to the lien of the Bond Indenture allocable to that Series of Bonds, and (d) other amounts that the Corporation may advise the Bond Trustee to treat as Gross Proceeds, and investment earnings on all of the foregoing.

Prior to making any distribution from the Rebate Fund held under the Bond Indenture, the Bond Trustee shall determine, from written calculations provided hereunder by the Corporation, whether funds remaining therein subject to the terms of the Bond Indenture shall be sufficient to pay the Rebate Amount when due and shall advise the Corporation of the deficiency, if any, which the Corporation shall promptly pay to the Bond Trustee. The Corporation shall provide the Bond Trustee, along with calculations, directions with regard to payment of the Rebate Amount. Payments to be made to the United States of America as required hereunder may be made directly by the Bond Trustee from the Rebate Fund, or any other fund or account held under the Bond Indenture, or from funds provided by the Corporation upon, and in such amounts as provided in written instructions from the Corporation to the Bond Trustee, notwithstanding any other provisions herein to the contrary.

If any amount allocable to the Bonds shall remain in the Rebate Fund after payment in full of the Bonds and after payment in full to the United States of the Rebate Amount with respect to that Series of Bonds in accordance with the terms hereof, the Bond Trustee shall, upon the written request of the Corporation, distribute such amount to the Corporation.

The obligation to pay the Rebate Amount to the United States and to comply with all other requirements summarized herein shall survive the defeasance or payment in full of the Bonds.

Under no circumstances whatsoever shall the Bond Trustee be liable to the Authority, the Corporation or any Bondholder for any loss of the status of interest on the Bonds as excludable from gross income for federal income tax purposes, or any claims, demands, damages, liabilities, losses, costs

or expenses resulting therefrom or in any way connected therewith, resulting from a failure to comply with Section 148(f) of the Code so long as the Bond Trustee has acted in accordance with the written directions of the Corporation, as authorized under the Bond Indenture.

INVESTMENT OF FUNDS

Upon telephonic instructions immediately followed by a Written Request of the Corporation filed with the Bond Trustee, moneys in the Revenue Fund, Interest Fund, Bond Sinking Fund, Debt Service Reserve Fund, Redemption Fund, Project Fund and Expense Fund shall remain invested, to the extent possible, at all times until the moneys therein are required to be used and shall be invested in Qualified Investments. Investments on deposit in all funds and accounts shall be valued at market value at lease quarterly. If the Corporation fails to file such a Written Request with the Bond Trustee, moneys in such funds shall be invested in Qualified Investments described in paragraph (v) of the definition thereof. Such investments shall be made so as to mature on or prior to the date or dates that moneys therefrom are anticipated to be required; provided that amounts on deposit in the Debt Service Reserve Fund (other than a surety bond or letter of credit) shall have an aggregate weighted term to maturity not greater than five years (except with respect to Qualified Investments described in paragraph (x) of the definition thereof). The Bond Trustee, when authorized by the Corporation, may trade with itself in the purchase and sale of securities for such investment; provided, however, that in no case shall investments be otherwise than in accordance with the investment limitations contained in the Bond Indenture. The Corporation shall be responsible for all Written Requests complying with the requirements of the Tax Certificate. The Bond Trustee shall not be liable or responsible for any loss resulting from any such investments. The foregoing notwithstanding, moneys held by the Bond Trustee resulting from a payment on the Bond Insurance Policy shall be held uninvested unless otherwise directed in writing by the Bond Insurer. Any purchase or sale of securities may be accomplished through the Bond Trustee's bond department.

All income in excess of the requirements of the Funds specified in the provisions of the Bond Indenture summarized in the first paragraph of this caption derived from the investment of moneys on deposit in any such funds shall be deposited in the following funds, in the order listed:

(i) The Debt Service Reserve Fund to the extent necessary to maintain the Debt Service Reserve Fund Requirement;

(ii) The Bond Sinking Fund and the Interest Fund (in that order), to the extent, with respect to the Bond Sinking Fund, of the amount required to be deposited in the Bond Sinking Fund to make the next required principal payment on the Bonds if such payment is scheduled to occur within 13 months of such transfer and to the extent, with respect to the Interest Fund, of the amounts which the Bond Trustee estimates based on the then current interest rates will be required to be deposited in the Interest Fund necessary to make any interest payments on the Bonds occurring within 13 months of such transfer; and

(iii) The balance, if any, in the Redemption Fund.

The Authority (and the Corporation by its execution of the Loan Agreement) acknowledges that to the extent regulations of the Comptroller of the Currency or other applicable regulatory entity grant the Authority and the Corporation the right to receive brokerage confirmations of security transactions as they occur, the Authority and the Corporation specifically waives receipt of such confirmations to the extent permitted by law. The Bond Trustee will furnish the Authority and the Corporation periodic cash transaction statements which include detail for all investment transactions made by the Bond Trustee hereunder.

ARBITRAGE

The Authority covenants and agrees in the Bond Indenture that it will not take any action or fail to take any action with respect to the investment of the proceeds of any Bonds issued under the Bond Indenture or with respect to the payments derived under the Loan Agreement or any other moneys regardless of source or where held which may, notwithstanding compliance with the other provisions of the Bond Indenture, the Loan Agreement and the Tax Certificate, result in constituting any Bonds "arbitrage bonds" within the meaning of such term as used in Section 148 of the Code. The Authority further covenants and agrees that it will comply with and take all actions required by the Tax Certificate.

LIQUIDITY FACILITY; SUBSTITUTE LIQUIDITY FACILITY

Pursuant to the Loan Agreement, the Corporation covenants and agrees that at all times while any Bonds are outstanding which bear interest at the Daily Rate or Weekly Rate, the Corporation will maintain a Liquidity Facility in full force and effect with respect to all such Bonds in an amount not less than the Required Stated Amount for such Bonds. In addition, pursuant to the Loan Agreement, the Corporation covenants and agrees that at all times while any Bonds are outstanding which bear interest at the Daily Rate or Weekly Rate, if the rating of the Liquidity Facility Provider is lowered by either Moody's or S&P below "A-1" or "VMIG-1," respectively, then the Corporation, unless otherwise consented to in writing by the Bond Insurer, shall use its best efforts to obtain a Substitute Liquidity Facility within 90 days of receipt of notice of the downgrade of the rating of the Liquidity Facility Provider.

The amount available under the Liquidity Facility may be reduced if the Corporation has deposited a Substitute Liquidity Facility with the Bond Trustee in accordance with the terms of this caption or the requirements set forth in the Bond Indenture are satisfied, but only upon the receipt by the Bond Trustee of (i) a Written Request of the Corporation requesting that the Bond Trustee direct or send appropriate notice to the Liquidity Facility Provider requesting or directing that such amount be reduced and specifying the amount that shall thereafter be available under the Liquidity Facility, and (ii) the written consent of the Authority and the Bond Insurer to such reduction. The Authority shall not consent to a reduction in the Liquidity Facility to an amount less than the Required Stated Amount for the Bonds benefiting from the Liquidity Facility. Notwithstanding the foregoing, immediately after payment in full has been made on any Bond, either at Maturity, by Bond Sinking Fund payment, optional redemption or upon provision for payment as provided in the Bond Indenture, the Bond Trustee shall direct or send appropriate notice to the Liquidity Facility Provider requesting or directing that the amount available under the Liquidity Facility be reduced by an amount equal to such principal so paid plus the amount of interest provided for under the Liquidity Facility on such principal amount. No direction or consent of the Authority, the Corporation or the Bond Insurer shall be required for the Bond Trustee to take the action required by the preceding sentence.

While Bonds are bearing interest at a Daily Rate or Weekly Rate, a Substitute Liquidity Facility may become effective on any Business Day, which shall be a Substitute Liquidity Facility Date. The Corporation shall cause a draft of any Substitute Liquidity Facility in substantially final form and a commitment letter with respect thereto, together with written evidence from each Rating Agency rating the Bonds prior to the Substitute Liquidity Facility Date of the rating on the Bonds after the Substitute Liquidity Facility Date, to be delivered to the Bond Trustee, the Authority and the Bond Insurer, not less than 15 days prior to the proposed Substitute Liquidity Facility Date. On each Substitute Liquidity Facility Date the Authority, the Bond Insurer, the Bond Trustee, the Corporation and the Bond Trustee's Agent shall also receive (i) an opinion of counsel for the Substitute Liquidity Facility Provider regarding the enforceability of the Substitute Liquidity Facility in substantially the form delivered to the Bond Trustee upon execution and delivery of the Liquidity Facility then in effect, (ii) an Opinion of Bond

Counsel to the effect that the substitution of the Liquidity Facility then in effect will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes, and (iii) the written consent of the Bond Insurer to the Substitute Liquidity Facility, which consent may not be unreasonably withheld.

On any Substitute Liquidity Facility Date on which a Substitute Liquidity Facility becomes effective in accordance with the provisions of this caption, the Bond Trustee shall take such action as is required under the Liquidity Facility Agreement to cause the cancellation of the Liquidity Facility then in effect provided that all draws made thereunder have been honored.

On each Substitute Liquidity Facility Date, the Bonds shall be subject to mandatory purchase pursuant to the Bond Indenture; if any draw on a Liquidity Facility is necessary on the Substitute Liquidity Facility Date, the Bond Trustee shall draw on the prior Liquidity Facility; any Liquidity Facility Bonds held under the Prior Liquidity Facility shall be purchased by the new Liquidity Facility Provider at a price of par plus accrued interest; and any and all amounts owing by the Corporation udner the prior Liquidity Facility shall be paid in full.

Immediate Notice shall be given by the Bond Trustee to the Liquidity Facility Provider, the Corporation, the Authority, the Bond Insurer and each Rating Agency then maintaining a rating on the Bonds if no satisfactory Substitute Liquidity Facility shall be furnished to the Bond Trustee in accordance with this caption on or prior to the Expiration Date of the then current Liquidity Facility.

On the second Business Day preceding the Expiration Date, the Bonds shall be subject to mandatory purchase pursuant to the Bond Indenture.

SUPPLEMENTAL BOND INDENTURES

Subject to the limitation set forth in the Bond Indenture, the Authority and the Bond Trustee may, without the consent of, or notice to, any of the Bondholders, but with the consent of the Bond Insurer and the Liquidity Facility Provider, if any, enter into an indenture or indentures supplemental to the Bond Indenture, as shall not be inconsistent with the terms and provisions the Bond Indenture, for any one or more of the following purposes:

(a) to cure any ambiguity or formal defect or omission in the Bond Indenture;

(b) to grant to or confer upon the Bond Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders and the Bond Trustee, or either of them;

(c) to assign and pledge under the Bond Indenture additional revenues, properties or collateral or, with the consent of the Bond Insurer, to provide for the use of a Liquidity Facility including during any Mode with respect to which such a Facility is not required under the terms of the Bond Indenture;

(d) to evidence the appointment of a separate co-bond trustee or the succession of a new bond trustee under the Bond Indenture;

(e) to permit the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as then amended, or any similar federal statute hereafter in effect or to

permit the qualification of the Bonds for sale under the securities laws of any state of the United States;

(f) to permit the issuance of coupon bonds under the Bond Indenture and to permit the exchange of Bonds from registered form to coupon form and vice versa;

(g) to provide for the refunding or advance refunding of any Bonds, including providing for the establishment and administration of an escrow fund and the taking of related action in connection therewith;

(h) to provide for the issuance of a series of Additional Bonds, including the Series 2008A Bonds;

(i) to permit continued compliance with the Tax Certificate; and

(j) with the written consent of the Bond Insurer and the Liquidity Facility Provider, to make any other change that, in the judgment of the Bond Trustee, does not materially adversely affect the rights of any Bondholders.

The Authority and the Bond Trustee may not enter into a bond indenture or indentures supplemental to the Bond Indenture pursuant to subparagraph (g) above unless they shall have received an Opinion of Bond Counsel to the effect that entry into such indenture and the issuance of coupon Bonds pursuant thereto is permitted under the Bond Indenture and will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Tax-Exempt Bonds in gross income for federal income tax purposes. The Bond Trustee may decline in its discretion to enter into an indenture supplemental to the Bond Indenture pursuant to the other subparagraphs of the Bond Indenture described above unless it receives such an Opinion of Bond Counsel.

If at any time the Authority or the Bond Trustee proposes to enter into an indenture supplemental to the Bond Indenture pursuant to this caption, the Bond Trustee shall cause notice of the proposed execution of such supplemental indenture to be given to the Bond Insurer, the Liquidity Facility Provider and any Rating Agency then maintaining a rating on any of the Bonds in the manner provided in the Bond Indenture at least 10 days prior to the execution of such supplemental indenture, which notice shall include a copy of the proposed supplemental indenture.

In addition to supplemental indentures covered by the Bond Indenture and subject to the terms and provisions contained in this caption, and not otherwise, the holders of not less than a majority in aggregate principal amount of the Bonds which are outstanding under the Bond Indenture at the time of the execution of such indenture or supplemental indenture, in all cases with the written consent of the Bond Insurer and the Liquidity Facility Provider, if any, shall have the right, from time to time, anything contained in the Bond Indenture to the contrary notwithstanding, to consent to and approve the execution by the Authority and the Bond Trustee of such other indenture or indentures supplemental hereto as shall be deemed necessary and desirable by the Authority for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Indenture or in any supplemental indenture; provided, however, that, except as set forth in the next proviso, the Bond Insurer may consent to such amendment on behalf of the owners of the Bonds so long as the Bond Insurer has not lost any of its rights pursuant to the Bond Indenture; provided, however, that nothing contained in the Bond Indenture shall permit, or be construed as permitting, a supplemental indenture to effect: (a) an extension of the stated maturity or reduction in the principal amount of, or reduction in the rate or extension of the time of paying of interest on, or reduction of any premium payable on the redemption of, any Bonds, without the consent of the holders of such Bonds; (b) a reduction in the

amount or extension of the time of any payment required to be made to or from the Interest Fund or the Bond Sinking Fund; (c) the creation of any lien prior to or on a parity with the lien of the Bond Indenture on the property described in the granting clauses of the Bond Indenture or the deprivation of any Bondholder of the lien created by the Bond Indenture on such property, without the consent of the holders of all the Bonds at the time outstanding; (d) a reduction in the aforesaid aggregate principal amount of Bonds the holders of which are required to consent to any such supplemental indenture, without the consent of the holders of all the Bonds at the time outstanding which would be affected by the action to be taken; or (e) a modification of the rights, duties or immunities of the Bond Trustee, without the written consent of the Bond Trustee.

If at any time the Authority shall request the Bond Trustee to enter into any such supplemental indenture for any of the purposes of this caption, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of the proposed execution of such supplemental indenture to be mailed to the Bond Insurer, the Liquidity Facility Provider and each holder of Bonds as shown on the registration books of the Bond Trustee. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that copies thereof are on file at the principal office of the Bond Trustee for inspection by all Bondholders. The Bond Trustee shall not, however, be subject to any liability to any Bondholder by reason of its failure to mail such notice, and any such failure shall not affect the validity of such supplemental indenture when consented to and approved as provided in this caption. If the holders of the requisite principal amount of Bonds which are outstanding under the Bond Indenture at the time of the execution of any such supplemental indenture shall have consented to and approved the execution thereof as provided in the Bond Indenture, no holder of any Bond shall have any right to object to any of the terms and provisions contained therein, or the operation thereof, or in any manner to question the propriety of the execution thereof, or to enjoin or restrain the Bond Trustee or the Authority from executing the same or from taking any action pursuant to the provisions thereof. Upon the execution of any such supplemental indenture as permitted by and provided in the Bond Indenture, the Bond Indenture shall be and be deemed to be modified and amended in accordance therewith.

If at any time the Authority or the Bond Trustee proposes to enter into an indenture supplemental to the Bond Indenture pursuant to this caption, the Bond Trustee shall cause notice of the proposed execution of such supplemental indenture to be given to the Bond Insurer, the Liquidity Facility Provider and any Rating Agency then maintaining a rating on any of the Bonds in the manner provided in the Bond Indenture at least 10 days prior to the execution of such supplemental indenture, which notice shall include a copy of the proposed supplemental indenture.

Anything in the Bond Indenture to the contrary notwithstanding, so long as the Corporation is not in default under a Loan Agreement, a supplemental indenture under the Bond Indenture shall not become effective unless and until the Corporation shall have consented in writing to the execution and delivery of such supplemental indenture. In this regard, the Bond Trustee shall cause notice of the proposed execution and delivery of any such supplemental indenture to which the Corporation has not already consented, together with a copy of the proposed supplemental indenture and a written consent form to be signed by the Corporation, to be mailed by first class mail to the Corporation at least 30 days prior to the proposed date of execution and delivery of any such supplemental indenture.

DEFAULTS AND REMEDIES

Each of the following events is an "event of default" under the Bond Indenture:

(a) payment of any installment of interest payable on any of the Bonds shall not be made when the same shall become due and payable (a payment made by the Bond Insurer pursuant to the Bond Insurance Policy shall not be considered payment for these purposes); or

(b) payment of the principal or the premium, if any, payable on any of the Bonds shall not be made when the same shall become due and payable, either at Maturity, by proceedings for redemption, upon acceleration, through failure to make any payment to any fund under the Bond Indenture or otherwise (a payment made by the Bond Insurer pursuant to the Bond Insurance Policy shall not be considered payment for these purposes); or

(c) the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Bond Indenture; or

(d) an order or decree shall be entered, appointing a receiver, receivers, custodian or custodians for any of the revenues of the Authority, or approving a petition filed against the Authority seeking reorganization of the Authority under the federal bankruptcy laws or other similar law or statute of the United States of America or any state thereof, and in the case of any such order or decree which was entered without the consent or acquiescence of the Authority, it shall not be vacated or discharged or stayed on appeal within 60 days after the entry thereof; or

(e) any proceeding shall be instituted, with the consent or acquiescence of the Authority, or any plan shall be entered into by the Authority, for the purpose of effecting a composition between the Authority and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from any part or all of the trust estate, including the revenues and other moneys derived by the Authority under the Loan Agreement; or

(f) the Authority (1) files a petition in bankruptcy or under Title 11 of the United States Code, as amended, (2) makes an assignment for the benefit of its creditors, (3) consents to the appointment of a receiver, custodian or trustee for itself or for the whole or any part of the trust estate, including the revenues and other moneys derived by the Authority under the Loan Agreement, or (4) is generally not paying its debts as such debts become due; or

(g) (1) the Authority is adjudged insolvent by a court of competent jurisdiction, (2) on a petition in bankruptcy filed against the Authority it is adjudged as bankrupt, or (3) an order, judgment or decree is entered by any court of competent jurisdiction appointing, without the consent of the Authority, a receiver, custodian or trustee of the Authority or of the whole or any part of its property and any of the aforesaid adjudications, orders, judgments or decrees shall not be vacated or set aside or stayed within 60 days from the date of entry thereof; or

(h) the Authority shall file a petition or answer seeking reorganization or any arrangement under the federal bankruptcy laws or any other applicable law or statute of the United States of America or any state thereof; or

(i) under the provisions of any other law for the relief or aid of debtors, any court of competent jurisdiction shall assume custody or control of the Authority or of the whole or any substantial part of its property, and such custody or control shall not be terminated within 30 days from the date of assumption of such custody or control; or

(j) the Authority shall default in the due and punctual performance of any other of the covenants, conditions, agreements and provisions contained in the Bonds or in the Bond Indenture or any agreement supplemental hereto to be performed on the part of the Authority, and such default shall continue for the period of 30 days after written notice specifying

such default and requiring the same to be remedied shall have been given to the Authority, the Corporation, the Liquidity Facility Provider and the Bond Insurer by the Bond Trustee; provided that the Bond Trustee may give such notice in its discretion and shall give such notice at the written request of the Bond Insurer, the Liquidity Facility Provider or the holders of not less than 10% in aggregate principal amount of the Bonds then outstanding under the Bond Indenture; provided further that if such default cannot with due diligence and dispatch be wholly cured within 30 days but can be wholly cured, and the prior written consent of the Bond Insurer has been given, the failure of the Authority to remedy such default within such 30-day period shall not constitute a default under the Bond Indenture if the Authority shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch and the same shall in all events be cured within 60 days after written notice thereof from the Bond Trustee to the Corporation, the Liquidity Facility Provider and the Bond Insurer or such later date as shall be agreed to in writing by the Bond Insurer; or

(k) the Authority or the Corporation shall default in the performance of any covenant, condition, agreement or position of the Certificate as to Tax, Arbitrage and Other Matters signed by the Authority concurrently with the issuance of the Bonds, or the Corporation shall default in the performance of any covenant, condition, agreement or provision of the Tax Certificate, and such default shall continue for the period of 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the party in default and the Corporation by the other party; provided that if such default cannot with due diligence be wholly cured within 30 days but can be wholly cured and the prior written consent of the Bond Insurer is given, the failure of the Authority or the Corporation to remedy such default within such 30-day period shall not constitute a default under the Bond Indenture if any of the foregoing shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch.

If on the date payment of principal of or interest on any Bonds is due, sufficient moneys are not available to make such payment, the Bond Trustee shall give telephonic notice, confirmed in writing, of such insufficiency to the Corporation.

The Bond Trustee shall give the Corporation Immediate Notice of any failure of the Corporation to pay any installment of principal, premium, if any, and interest required by the Loan Agreement when the same shall become due and payable, whether upon a scheduled Interest Payment Date, at Maturity, upon any date fixed for prepayment, by acceleration or otherwise.

Written notice of the occurrence of the foregoing events of default and the continuation of the same for the period, if any, specified in said paragraphs, shall be given by the Bond Trustee to the Bond Insurer.

Upon the happening of any event of default specified in subparagraphs (c) through (k) above and the continuance of the same for the period, if any, specified in said subparagraphs, the Bond Trustee as the assignee of the Authority may, with the consent of the Bond Insurer, and shall upon the request of the Bond Insurer, but without any action on the part of the Bondholders, and upon the happening of an event of default specified in subparagraphs (a) or (b) above, with the written consent of the Bond Insurer, and without any action on the part of the Bondholders, or upon the happening and continuance of any other event of default (other than those specified in subparagraphs (a) or (b) above and the written request of the Bond Insurer or the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding under the Bond Indenture (exclusive of Bonds then owned by the Authority or an affiliate

thereof) with the written consent of the Bond Insurer, and (except as provided in the Bond Indenture) upon being indemnified to its satisfaction, the Bond Trustee as assignee of the Authority shall, by notice in writing delivered to the Authority, declare the entire principal amount of the Bonds then outstanding under the Bond Indenture and the interest accrued thereon, immediately due and payable, and the entire principal and interest shall thereupon become and be immediately due and payable, subject, however, to the provisions of the Bond Indenture with respect to waivers of events of default. The Bond Trustee shall give notice thereof by first class mail, postage prepaid, to all owners of outstanding Bonds, the Authority, the Corporation, Bond Insurer and the Liquidity Facility Provider; provided, however, that the giving of such notice shall not be considered a precondition to the Bond Trustee declaring the entire principal amount of the Bonds then outstanding and the interest thereon immediately due and payable.

In the event the maturity of the Bonds is accelerated, the Bond Insurer may elect, in its sole discretion, to pay accelerated principal and interest accrued on such principal to the date of acceleration (to the extent unpaid by the Authority), and the Bond Trustee shall be required to accept such amounts. Upon payment of such accelerated principal and interest accrued to the acceleration date as provided above, the Bond Insurer's obligations under the Bond Insurance Policy with respect to the Bonds shall be fully discharged.

REMEDIES; RIGHTS OF BONDHOLDERS

Upon the occurrence of any Event of Default under the Bond Indenture, the Bond Trustee may, with the written consent of the Bond Insurer and without any action on the part of the Bondholders, and shall, upon being indemnified to its satisfaction, at the direction of the Bond Insurer pursue any available remedy, including a suit at law or in equity to: (a) enforce the payment of the principal of, premium, if any, and interest on the Bonds outstanding under the Bond Indenture, (b) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the owners under, and require the Authority or the Corporation to carry out any agreements with or for the benefit of the owners of Bonds and to perform its or their duties under, the Act, the Loan Agreement and the Bond Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Loan Agreement or the Bond Indenture, as the case may be; (c) bring suit upon the Bonds; or (d) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the owners of Bonds.

If an Event of Default shall have occurred, and if the Bond Trustee shall have been requested to do so by the Bond Insurer or the owners of not less than 25% in aggregate principal amount of Bonds then outstanding with the written consent of the Bond Insurer and the Bond Trustee shall have been indemnified as provided in the Bond Indenture, the Bond Trustee shall be obligated to exercise such one or more of the rights and powers conferred by this caption as the Bond Insurer shall direct or in the absence of such direction, as the Bond Trustee shall deem most expedient in the interests of the owners of Bonds; provided, however, that the Bond Trustee shall have the right to decline to comply with any such request or direction if the Bond Trustee shall be advised by counsel (who may be its own counsel) that the action so requested may not lawfully be taken or the Bond Trustee in good faith shall determine that such action would be unjustly prejudicial to the holders of Bonds not parties to such request.

No remedy by the terms of the Bond Indenture conferred upon or reserved to the Bond Trustee (or to the holders of Bonds or the Bond Insurer) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Bond Trustee, the holders of Bonds or the Bond Insurer under the Bond Indenture now or hereafter existing at law or in equity or by statute.

No delay or omission to exercise any right or power accruing upon any default or Event of Default shall impair any such right or power or shall be construed to be a waiver of any such default or Event of Default, or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient.

No waiver of any default or Event of Default under the Bond Indenture, whether by the Bond Trustee, by the holders of Bonds, or the Bond Insurer, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

When the Bond Trustee incurs expenses or renders services after the occurrence of an act of bankruptcy with respect to the Authority or the Corporation, such expenses and the compensation for such services are intended to constitute expenses of administration under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

DIRECTION OF PROCEEDINGS BY BONDHOLDERS

The Bond Insurer or the owners of not less than a majority in aggregate principal amount of Outstanding Bonds with the written consent of the Bond Insurer shall have the right, at any time, by an instrument or instruments in writing executed and delivered to the Bond Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Bond Indenture, including the enforcement of the rights of the Authority under the Loan Agreement or the appointment of a receiver or any other proceedings under the Bond Indenture; provided, that such direction shall not be otherwise than in accordance with the provisions of law and of the Bond Indenture.

WAIVER OF EVENTS OF DEFAULT

The Bond Trustee may, with the written consent of the Bond Insurer, in its discretion without any action on the part of the Bondholders, and shall, upon the direction of the Bond Insurer, waive any Event of Default under the Bond Indenture and its consequences and rescind any declaration of maturity of principal, and shall do so upon being indemnified to its satisfaction and receipt of the written request of the holders, with the written consent of the Bond Insurer, of (1) at least a majority in aggregate principal amount of all the Bonds outstanding in respect of which default in the payment of principal and/or interest exists, or (2) at least a majority in aggregate principal amount of all the Bonds outstanding in the case of any other event of default; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal of any outstanding Bonds when due whether by mandatory redemption through the Bond Sinking Fund, at the dates of Maturity specified therein or otherwise other than principal due upon an acceleration of the Bonds or (b) any default in the payment when due of the interest on any such Bonds, other than accrued interest due solely as a result of an acceleration of the Bonds, unless prior to such waiver or rescission all arrears of interest, with interest thereon (to the extent permitted by law) at the rate borne by the Bonds in respect of which such default shall have occurred on overdue installments of interest or all arrears of payments of principal when due, as the case may be, and all fees and expenses of the Bond Trustee, the Authority and any Paying Agent in connection with such default shall have been paid or provided for, including, but not limited to, the reasonable fees of their counsel.

In case of any such waiver or rescission or in case any proceeding taken by the Bond Trustee on account of any such default shall have been discontinued or abandoned or determined adversely, then and in every such case the Authority, the Bond Trustee, the Bond Insurer and the Bondholders shall, subject to any determination in such proceeding, be restored to their former positions and rights under the Bond

Indenture respectively, but no such waiver or rescission shall extend to any subsequent or other default, or impair any right consequent thereon.

APPLICATION OF MONEYS

All moneys received by the Bond Trustee or by any receiver pursuant to any right given or action taken under the provisions of the Bond Indenture (other than remarketing proceeds, draws under the Liquidity Facility and payments made by the Bond Insurer to pay principal and/or interest on the Bonds which shall be applied in accordance with the Bond Indenture) and any other funds then held shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees of, and the expenses, liabilities and advances incurred or made by the Bond Trustee at the request or with the concurrence of the Bond Trustee, be deposited in the Revenue Fund and all moneys (other than moneys for the payment of Bonds which have previously matured or otherwise become payable prior to such Event of Default or for the payment of interest which became due prior to such Event of Default) in the Funds maintained by the Bond Trustee under the Bond Indenture shall be applied as follows:

(a) Unless the principal of all the Bonds shall have become or shall have been declared due and payable, all such moneys shall be applied:

FIRST: To the payment to the Persons entitled thereto of all installments of interest then due on the Bonds, in the order of the maturity of the installments of such interest, and, if the amount available shall not be sufficient to pay in full any particular installment, then to the payment ratably, according to the amounts due on such installment, to the Persons entitled thereto without any discrimination or privilege;

SECOND: To the payment to the Persons entitled thereto of the unpaid principal (including unpaid premium, if any) of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture), in the order of their due dates, and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, then to the payment ratably, according to the amount of principal due on such date, to the Persons entitled thereto without any discrimination or privilege;

THIRD: To the payment to the Liquidity Facility Provider of any amounts due under the Liquidity Facility;

FOURTH: To the payment of amounts, if any, payable pursuant to the terms of the Bond Indenture;

FIFTH: To the payment to the Bond Insurer of any amounts due; and

SIXTH: To the payment to the Persons entitled thereto of unpaid principal and interest due and owing on any Bonds, the payment of principal and interest of which has been extended in the manner described in the Bond Indenture, including the Bond Insurer.

(b) If the principal of all the Bonds shall have become due or shall have been declared due and payable, all such moneys shall be applied:

FIRST: To the payment of the principal (including unpaid premium, if any) and interest then due and unpaid upon the Bonds, or any amounts due under the Liquidity Facility, without preference or priority of principal or interest over the other, or of any installment of interest over any other installment

of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege; and

SECOND: To the payment of the principal (including unpaid premium, if any) and interest when due and unpaid upon Bonds with respect to which the payment of principal and interest has been extended as described in the Bond Indenture; and

THIRD: To the payment of amounts, if any, payable pursuant to the terms of the Bond Indenture, including amounts payable to the Bond Insurer.

(c) If the principal of all the Bonds shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Bond Indenture, then, subject to the provisions of subparagraph (b) above in the event that the principal of all the Bonds shall later become due or be declared due and payable, the moneys shall be applied in accordance with the provisions of subparagraph (a) above.

Whenever moneys are to be applied by the Bond Trustee pursuant to the provisions of Bond Indenture summarized under this caption, such moneys shall be applied by it at such times, and from time to time, as the Bond Trustee shall determine, having due regard for the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Bond Trustee shall apply such moneys which shall not include the application of moneys upon the occurrence of an acceleration pursuant to the Bond Indenture, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable, or, with respect to payments of Defaulted Interest, shall be such date as is required by the Bond Indenture) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such dates shall cease to accrue. The Bond Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date and of the Special Record Date by mailing a copy of such notice by first class mail to the registered owners of the Bonds, at least 10 days prior to the Special Record Date. The Bond Trustee shall not be required to make payment to the holder of any Bond until such Bond shall be presented to the Bond Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all Bonds and interest thereon have been paid under the provisions of this caption, all expenses and charges of the Bond Trustee have been paid and all amounts due and owing to the Bond Insurer and the Liquidity Facility Provider, if any, have been paid, any balance remaining shall be paid to the Persons entitled to receive the same; if no other Person shall be entitled thereto, then the balance shall be paid to the Corporation.

REMOVAL OF THE BOND TRUSTEE

Subject to the Bond Indenture, the Bond Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Bond Trustee, the Corporation, the Bond Insurer, the Liquidity Facility Provider and the Authority, and signed by the owners of a majority in aggregate principal amount of Bonds then outstanding and consented to in writing by the Bond Insurer. So long as no Event of Default has occurred and is continuing under the Bond Indenture or the Loan Agreement, the Bond Trustee may be removed for cause (including but not limited to maintaining non-competitive fees) at any time by an instrument or concurrent instruments in writing signed by the Corporation consented to in writing by the Authority and the Bond Insurer and delivered to the Bond Trustee. The foregoing notwithstanding, the Bond Trustee may not be removed by the Corporation unless written notice of the delivery of such instrument or instruments signed by the Authority is mailed to the owners of all Bonds outstanding under the Bond Indenture, which notice indicates the Bond Trustee will be removed and

replaced by the successor trustee named in such notice, such removal and replacement to become effective on the 90th day next succeeding the date of such notice, unless the owners of not less than ten percent (10%) in aggregate principal amount of such Bonds then outstanding under the Bond Indenture or the Liquidity Facility Provider shall object in writing to such removal and replacement. Such notice shall be mailed by first class mail postage prepaid to the owners of all such Bonds then outstanding at the address of such owners then shown on the Bond Register. Prior to an Event of Default the Bond Insurer has the right to remove the Bond Trustee for cause, and after an Event of Default, the Bond Insurer has the right to remove the remove the Bond Trustee for any reason.

CONSENT OF BOND INSURANCE POLICY PROVIDER; INSURER'S RIGHTS

The Bond Insurer shall have the right to consent to amendments to the Bond Indenture and the Loan Agreement without the consent of the owners of the Bonds as and to the extent set forth in the Bond Indenture. Any action requiring consent of the Bondholders shall be deemed to also require the prior written consent of the Bond Insurer. Any and all notices required to be delivered to the Bondholders shall be delivered to the Bond Insurer.

DEFEASANCE

If the Authority shall pay or provide for the payment of the entire indebtedness on all Bonds (including for the purposes of the provisions of the Bond Indenture summarized under this caption, Bonds held by the Corporation) in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Bonds outstanding, as and when the same become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys (which shall be Eligible Moneys (other than moneys described in subparagraphs (b) and (c) of the definition of Eligible Moneys) for payment of Bonds bearing interest at the Daily Rate of the Weekly Rate, or for Liquidity Facility Bonds), in an amount sufficient to pay or redeem (when redeemable) all Bonds outstanding (including the payment of premium, if any, and interest payable on such Bonds to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in United States Government Obligations which are not prepayable or callable prior to, but mature on a date on or prior to the date the moneys therefrom are anticipated to be required in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Bonds outstanding at or before their respective maturity dates; it being understood that the investment income on such United States Government Obligations may be used for any other purpose under the Act;

(c) by delivering to the Bond Trustee, for cancellation by it, all Bonds outstanding; or

(d) by depositing with the Bond Trustee, in trust, United States Government Obligations which are not prepayable or callable prior to, but mature on a date on or prior to the date the moneys therefrom are anticipated to be required (purchased with Eligible Moneys (other than moneys described in subparagraphs (b) and (c) of the definition of Eligible Moneys) for payment of Bonds bearing interest at the Daily Rate or the Weekly Rate, or for Liquidity Facility Bonds) in such amount as the Bond Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, and any

uninvested cash, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Bonds outstanding at or before their respective maturity dates; provided that the Bond Trustee shall be permitted to rely upon an accountant's verification report as conclusive evidence of the sufficiency of the amount of such deposit;

and if the Authority and the Corporation shall pay or cause to be paid all other sums payable under the Bond Indenture by the Authority, and all other sums payable by the Corporation to the Liquidity Facility Provider under the Liquidity Facility, including any amounts due to or to become due to the Bond Insurer and the Liquidity Facility Provider, the Bond Indenture and the estate and rights granted under the Bond Indenture shall cease, determine, and become null and void, and thereupon the Bond Trustee shall, upon Written Request of the Authority, and upon receipt by the Bond Trustee of an Officer's Certificate of the Corporation and an opinion of Independent Counsel, each addressed to the Authority, the Bond Trustee and the Bond Insurer, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Bond Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Bond Indenture, the Loan Agreement and all financing statements filed in connection therewith, other than the liens on and financing statements filed in connection with such liens on the United States Government Obligations deposited. The provisions of subparagraphs (b) and (d) above shall only apply if (x) (A) such Bond matures or is called for redemption prior to the next date upon which such Bond is subject to purchase pursuant to the Bond Indenture or (B) if such Bond bears interest at a Daily Rate or Weekly Rate, the Bond Trustee, the Bond Insurer and the Authority receive evidence satisfactory to them that the moneys on deposit in the escrow established to advance refund such Bonds are in an amount sufficient to pay the principal of and interest on such Bonds at the Maximum Interest Rate, on any date such Bonds may be tendered during the period prior to payment in full of principal, premium, if any, and interest payable on such Bonds, in which case the tendered Bonds shall be purchased with moneys on deposit in the escrow and shall be canceled, which evidence shall be accompanied by a written notice from each Rating Agency then maintaining a rating on the Bonds to be refunded that the rating on such Bonds will not be withdrawn, suspended or reduced from the rating borne by such Bonds immediately prior to such refunding, and (y) the Corporation waives, to the satisfaction of the Bond Trustee, its right to convert the method for determining the interest rate borne by such Bond pursuant to the Bond Indenture.

The satisfaction and discharge of the Bond Indenture shall be without prejudice to the rights of the Bond Trustee and the Bond Insurer to charge and be reimbursed by the Authority and the Corporation for any expenditures which it may thereafter incur in connection herewith.

Any moneys, funds, securities, or other property remaining on deposit in the Revenue Fund, Interest Fund, Bond Sinking Fund, Debt Service Reserve Fund, Redemption Fund, Expense Fund or in any other fund or investment under the Bond Indenture (other than said United States Government Obligations or other moneys deposited in trust as above provided and other than amounts on deposit in the Rebate Fund) shall, upon the full satisfaction of the Bond Indenture, forthwith be transferred, paid over and distributed to the Corporation immediately preceding such satisfaction, as their respective interests may appear.

Upon compliance with the Bond Indenture, the Authority, the Corporation may at any time surrender to the Bond Trustee for cancellation by it any Bonds previously authenticated and delivered, which the Authority may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

If the Authority shall pay or provide for the payment of the Bonds as described above, the Bond Trustee shall give written notice of such payment or provision for payment to the Bond Insurer and the Liquidity Facility Provider. In addition, prior to any provision for payment of any portion of the Bonds

pursuant to the Bond Indenture, the Bond Insurer shall have consented to any investment agreements, hedge agreement, purchase and resale agreement or agreements providing for the forward purchase of Government Obligations which will be deposited with the Bond Trustee.

In addition, if any Bonds are defeased pursuant to subparagraph (b) or (d) above, the Corporation shall also deliver or cause to be delivered the following to the Bond Trustee and the Bond Insurer:

(i) report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Bond Insurer verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date (a "Verification");

(ii) an escrow deposit agreement (which shall be acceptable in form and substance to the Bond Insurer);

(iii) an opinion of Bond Counsel to the effect that the Bonds are no longer "Outstanding" under the Bond Indenture; and

(iv) a certificate of discharge of the Bond Trustee with respect to the Bonds.

Each Verification and opinion of Bond Counsel shall be acceptable in form and substance, and addressed, to the Authority, the Bond Trustee and the Bond Insurer.

Drafts of the documents referred to in (i), (ii), (iii) and (iv) above shall be delivered to the Bond Insurer for its approval not less than five Business Days prior to the date of the establishment of such escrow.

PAYMENT UNDER THE BOND INSURANCE POLICY

The Bond Trustee shall not make a claim for payment on the Bond Insurance Policy until any and all funds held pursuant to this Bond Indenture and available for such purpose have been fully drawn to pay principal (including bond sinking fund redemption payments) and interest on the Bonds. As long as the Bond Insurance Policy shall be in full force and effect, the Bond Trustee agrees to comply with the following provisions:

(a) At least three (3) days prior to each Interest Payment Date, the Bond 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 Bond Trustee determines that there will be insufficient funds, the Bond 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 Bond 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 Bond Trustee.

(b) The Bond Trustee shall, after giving notice to the Insurance Trustee as provided in subparagraph (a) above, make available to the Bond Insurer and the Insurance Trustee, the registration books of the Authority maintained by the Bond Trustee, and all records relating to the funds maintained under the Bond Indenture.

(c) The Bond Trustee shall provide the Bond Insurer and the Insurance Trustee with a list of Holders of Bonds entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Bonds entitled to receive full or partial interest payments from the Bond Insurer and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the Holders of Bonds entitled to receive full or partial principal payments from the Bond Insurer.

(d) The Bond Trustee shall at the time it provides notice to the Insurance Trustee pursuant to (a) above, notify Holders of Bonds entitled to receive the payment of principal or interest thereon from the Bond Insurer (i) as to the fact of such entitlement, (ii) that the Bond Insurer will remit to them all or part of the interest payments next coming due upon proof of the Holder's entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee as determined by the Bond Insurer, of an appropriate assignment of the Holder's right to payment, (iii) that should they be entitled to receive full payment of principal from the Bond Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Bond Insurer to permit ownership of such Bonds to be registered in the name of the Bond Insurer) for payment to the Insurance Trustee, and not the Bond Trustee and (iv) that should they be entitled to receive partial payment of principal from the Bond Insurer, they must surrender their Bonds for payment thereon first to the Bond Trustee, who shall note on such Bonds the portion of the principal paid by the Bond Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Bond Insurer, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Bond 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 a Holder by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its Holder 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 Bond Trustee shall, at the time the Insurance Trustee is notified pursuant to (a) above, notify all Holders that in the event that any Holder's payment is so recovered, such Holder will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Bond Trustee shall furnish to the Insurance Trustee and the Bond Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Bond Trustee and subsequently recovered from Holders and the dates on which such payments are made.

(f) The Bond 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 Bond Insurance Policy, and to evidence such subrogation (i) in the case of subrogation as to claims for past due interest, the Bond Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Bond Trustee, upon receipt from the Bond Insurer of proof of the payment of interest thereon to the Holders of the Bonds and (ii) in the case of subrogation as to claims for past due principal, the Bond Trustee shall note the Bond Insurer's rights as subrogee on the registration books of the Authority maintained by the Bond Trustee upon surrender of the Bonds by the Holders thereof.

RIGHTS OF THE BOND INSURER

Anything contained in the Bond Indenture or in the Bonds to the contrary notwithstanding, the existence of all rights given to the Bond Insurer under the Bond Indenture with respect to the giving of

consents, approvals, notices or the direction of proceedings are expressly conditioned upon its timely and full performance of the Bond Insurance Policy. Any such rights shall not apply if at any time (a) there are no Bonds outstanding or payable, or amounts owed to the Bond Insurer, (b) the Bond Insurer is in payment default under any of the Bond Insurance Policies, (c) the Bond Insurer has been declared insolvent or bankrupt by a court of competent jurisdiction, an order or decree shall have been entered appointing a receiver, receivers, custodian or custodians for any of its assets or revenues, or any proceeding shall be instituted with the consent or acquiescence of the Bond Insurer or any plan shall be entered into by the Bond Insurer for the purpose of effecting a composition between the Bond Insurer and its creditors or for the purpose of adjusting the claims of such creditors, (d) the Bond Insurer makes any assignment for the benefit of its creditors, (e) the Bond Insurer is generally not paying its debts as such debts become due, (f) the Bond Insurer has filed a petition in bankruptcy or under Title 11 of the United States Code, as amended, (g) any of the Bond Insurance Policies has been determined to be void or unenforceable by final judgment of a court of competent jurisdiction; or (h) an action by the Bond Insurer causes an event of default under the Liquidity Facility which permits the Liquidity Facility Provider immediately to terminate the Liquidity Facility; provided that the terms of the Bond Indenture summarized under this caption shall not in any way limit or affect the rights of the Bond Insurer as a Bondholder, as subrogee of a Bondholder or as assignee of a Bondholder or to otherwise be reimbursed and indemnified for its costs and expenses and other payment on or in connection with the Bonds or the Bond Insurance Policy either by operation of law or at equity or by contract.

The rights granted to the Bond Insurer under the Bond Indenture and the Loan Agreement to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Bond Insurance Policies. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Bondholders nor does such action evidence any position of the Bond Insurer, positive or negative, as to whether Bondholder consent is required in addition to consent of the Bond Insurer.

In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Bond Indenture would adversely affect the security for the Bonds or the rights of the Bondholders, the Bond Trustee shall consider the effect of any such amendment, consent, action or inaction as if there were no Bond Insurance Policies.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

REPRESENTATIONS

The Corporation represents in the Loan Agreement that it is a nonprofit public benefit corporation duly incorporated under the laws of the State, is in good standing and is duly authorized to conduct its business in the State and the Corporation has full power under all applicable laws and its articles of incorporation and By-laws to create, issue, enter into, execute and deliver, as applicable, the Deed of Trust, the Official Statement, the Tax Certificate and the Loan Agreement. In addition, the Corporation represents in the Loan Agreement that it (i) is a Tax-Exempt Organization, (ii) has each received a letter from the Internal Revenue Service to the foregoing effect, which letter has not been modified, limited or revoked, (iii) is in compliance with all the terms, conditions and limitations (if any) contained in such letter, it being specifically represented by them that the facts and circumstances which form the basis of such letter continue to exit, (v) is in compliance with all laws and regulations applicable to its status under the Code, and (v) is therefore exempt from federal income taxes under Section 501(a) of the Code.

ASSIGNMENT OF RIGHTS UNDER THE LOAN AGREEMENT

The Corporation acknowledges and consents to the pledge and assignment of the Loan Agreement (excluding Unassigned Rights) and payments to be made under the Loan Agreement, and of the Authority's rights under the Loan Agreement (excluding Unassigned Rights) to the Bond Trustee pursuant to the Bond Indenture to secure payment of the Bonds and agrees that the Bond Trustee may, on behalf of the owners of the Bonds, enforce the rights, remedies and privileges granted to the Authority under the Loan Agreement, other than the Unassigned Rights.

LOAN OF BOND PROCEEDS ; PAYMENTS UNDER THE LOAN AGREEMENT

Under the terms of the Loan Agreement, the Authority loans the proceeds of the Bonds to the Corporation and the Corporation agrees that the proceeds of the Bonds being loaned to the Corporation shall be deposited with the Bond Trustee and applied for the benefit of the Corporation as provided in the Bond Indenture.

Under the terms of the Loan Agreement, the Corporation agrees that the principal of, premium, if any, and interest on the Bonds shall be made payable in accordance with the provisions of the Bond Indenture and the Loan Agreement. The Corporation further agrees that the Loan Agreement and payments to be made thereunder (excluding Unassigned Rights) and thereon shall be assigned and pledged to the Bond Trustee to secure the payment of the Bonds. The foregoing notwithstanding, the Corporation agrees that the moneys and securities, if any, on deposit in the Rebate Fund and the Purchase Fund are not part of the "trust estate" and are not available to make payments of principal, premium, if any, and interest on the Bonds.

INDEMNIFICATION OF THE AUTHORITY AND THE BOND TRUSTEE

The Corporation agrees to pay, and to protect, indemnify and save the Authority and its members, the Association of Bay Area Governments and its members, the Bond Trustee and each of their respective officers, governing members, directors, officials, employees, attorneys and agents harmless from and against, any and all liabilities, losses, damages, tax penalties, costs and expenses incurred by them, all as more fully described in the Loan Agreement.

USE OF PROPERTY

The Corporation agrees to use its senior residential and care Facilities primarily as revenue producing facilities and for related activities and only in furtherance of its lawful corporate purposes. The Corporation further covenants and agrees to operate so as not to discriminate on a legally impermissible basis.

The Corporation further agrees that it will not use or permit to be used any of its Bond Financed Property (i) primarily for sectarian instruction or study or as a place of devotional activities or religious worship or as a facility used primarily in connection with any part of the program of a school or department of divinity for any religious denomination or the training of ministers, priests, nuns, rabbis or other similar persons in the field of religion, or (ii) in a manner which is prohibited by the establishment of religion clause of the First Amendment to the Constitution of the United States of America and the decisions of the United States Supreme Court interpreting the same or by any comparable provisions of the Constitution of the State and the decisions in the Supreme Court of the State interpreting the same.

The Corporation will permit the Authority, but the Authority shall not be obligated, to make inspections of any of its Property to determine compliance with the two preceding paragraphs. The

provisions of this paragraph and the immediately preceding paragraph shall remain in full force and effect notwithstanding the payment of the Bonds and all amounts due and owing under the Loan Agreement and the termination of the Bond Indenture and the Loan Agreement.

The covenants and agreements contained summarized under this caption need not be observed or may be changed if the Bond Trustee and the Corporation receive an Opinion of Bond Counsel to the effect that such nonobservance or change will not adversely affect the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes or the validity of the Bonds.

PLEDGE OF GROSS REVENUES

The Corporation agrees that, as long as any of the Bonds remain Outstanding, any Loan Payments remain unpaid, or any amounts remain unpaid under any Parity Debt, 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, subject to the provisions of subsection (b) of this caption, in an account or accounts at such banking institution or institutions in the State as the Corporation shall from time to time designate, in writing to the Trustee for such purpose (herein called 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 herein, the Corporation pledges, and to the extent permitted by law grants a security interest to the Trustee, as assignee of the Authority (for the benefit of the Holders, and the owners of any Parity Debt and the Bond Insurer, as and to the extent provided herein) in, the Gross Revenue Fund and all of the Gross Revenues (collectively, the "Collateral") to secure the payment of the Loan Payments and the performance by the Corporation of its other obligations under the Loan Agreement, the Liquidity Facility and the other Corporation Agreements and the payment and performance of all obligations of the Corporation under any agreement securing Parity Debt. The Corporation shall execute a control agreement in form and substance satisfactory to the Bond Trustee, the Bond Insurer and the Liquidity Facility Provider, shall execute and cause to be sent to each depository bank a notice of the security interest granted hereunder and shall execute and deliver such other documents as may be necessary or reasonably requested by the Bond Insurer or the Authority in order to perfect or maintain as perfected such security interest or give public notice thereof. The Corporation irrevocably authorizes the Trustee and the Bond Insurer to execute and file any financing statements and amendments thereto as may be required to perfect or to continue the perfection of the security interest in the collateral, including, without limitation, financing statements that describe the collateral as being of an equal, greater or lesser scope, or with greater or lesser detail, than as set forth in the definition of the collateral. The Corporation also ratifies its authorization for the Trustee and the Bond Insurer to have filed in any jurisdiction any like financing statements or amendments thereto if filed prior to the date of the Loan Agreement. The Corporation covenants that it will not change its name or its type or jurisdiction of organization unless (i) it gives thirty (30) days notice of such change to the Bond Trustee and the Bond Insurer and (ii) before such change occurs it takes all actions as may be necessary or advisable to maintain and continue the first priority perfected security interest of the Bond Trustee and the Bond Insurer in the collateral.

Amounts in the Gross Revenue Fund may be used and withdrawn by the Corporation at any time for any lawful purpose, except as hereinafter provided. In the event that the Corporation is delinquent for more than five Business Days in the payment or required prepayment of any Loan Payment or there is a delinquency regarding any Additional Payment or any payment with respect to the Liquidity Facility or any Parity Debt known to the Trustee, the Bond Trustee shall notify the Corporation, the Bond Insurer, the Liquidity Facility Provider and the depository bank(s) of such delinquency, and, unless such Loan Payment or payment with respect to the Parity Debt is paid within ten days after receipt of such notice, the Trustee shall exercise exclusive control over the Gross Revenue Fund to the name and credit of the Bond Trustee, as assignee of the Authority, as provided in the control agreement, but only with the

consent of the Bond Insurer (provided that such consent shall be required only if the Policy is in effect and the Bond Insurer is not in default thereunder), until the amounts on deposit in said fund are sufficient to pay in full (or have been used to pay in full) all Loan Payments in default and payments required with respect to the Liquidity Facility or any Parity Debt in default and until all other Loan Agreement defaults and events of default with respect to the Bond Insurance Policy or the Liquidity Facility or any 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 therefore. During any period that the Gross Revenue Fund is held subject to the exclusive control of the Bond Trustee, the Bond Trustee shall use and withdraw from time to time amounts in such fund, to make Loan Payments and the other payments required of the Corporation under the Loan Agreement or with respect to the Bond Insurance Policy or the Bond Insurance Policy or the Liquidity Facility or any Parity Debt as such payments become due (whether by maturity, prepayment, 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 Payments, amounts due under the Liquidity Facility and debt service on such Parity Debt, ratably, according to the amounts due respectively for Loan Payments, under the Liquidity Facility and for such debt service, without any discrimination or preference, and to such other payments in the order which the Bond Trustee or the Bond Insurer, in its discretion, shall determine to be in the best interests of the Owners, the Liquidity Facility Provider and the owners of such Parity Debt, without discrimination or preference. During any period that the Gross Revenue Fund is subject to the exclusive control of the Bond Trustee, the Corporation shall not be entitled to use or withdraw any of the Gross Revenues unless (and then only to the extent that) the Bond Trustee 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. The Corporation shall execute and deliver all instruments as may be required to implement this requirement. The Corporation further agrees that a failure to comply with the terms hereof shall cause irreparable harm to the Owners, the Liquidity Facility Provider, the Bond Insurer and the owners of Parity Debt, and shall entitle the Bond Trustee, as assignee of the Issuer, with or without notice to the Corporation, with the approval of the Bond Insurer, to take immediate action to compel the specific performance of the obligations of the Corporation

INSURANCE AND EMINENT DOMAIN

a. Insurance Required. The Corporation agrees that it will maintain insurance, which may include one or more self-insurance programs, covering such risks and in such amounts as, in its judgment, are adequate to protect it and its properties and operations and as are, with respect to retirement housing activities and properties, customary for retirement housing corporations of similar size and character. Such insurance policies may include fire insurance, insurance coverage of boilers and other selected machinery items, general liability insurance and property damage coverage, comprehensive automobile liability insurance, workers' compensation coverage as required by the laws of the State, use and occupancy insurance covering loss of operating revenues by reason of the total or partial interruption of retirement housing and health care services provided by the Corporation, professional liability insurance protecting the Corporation against claims arising from any act or omission in the furnishing of retirement housing or health care services to any resident or patient, and fidelity bonds on officers and employees of the Corporation. The Corporation covenants and agrees that each insurance policy (except liability, worker's compensation and employee dishonesty) shall name the Corporation, the Issuer, the Trustee and the Bond Insurer as insured parties, beneficiaries or loss payees; provided, however, that payments of the proceeds of such insurance shall be made exclusively to the Corporation, if the amount of the proceeds in each instance is less than one million dollars ($1,000,000). The Trustee shall have no responsibility to monitor such insurance. Each policy of insurance shall be written by an insurer licensed to do business in

the State and rated in at least the "A" category by either S&P or A.M. Best Company, Inc. or any other insurer approved by the Insurer; provided, however, any insurance coverage required herein may be secured from an unrated insurer if approved by the Insurer. The Corporation shall not self-insure for any property or casualty risks (other than automobile collision) under any circumstances, and may self-insure for liability only with the written consent of the Insurer. Any self-insurance shall be subject to annual review by Consultant (which must also be a licensed actuary for these purposes) and funding of self-insurance reserves consistent with the recommendations of the Consultant. All insurance policies required hereunder shall contain a standard mortgagee clause in favor of the Bond Insurer and the general liability insurance policies shall be endorsed to show the Bond Insurer as additional insured. All such policies, or a certificate or certificates of insurers that such insurance is in full force and effect, shall be deposited with the Insurer (together with receipts indicating that premiums are being paid on an annual or more frequent basis in accordance with the terms of each such policy) and, prior to expiration of any such policy, the Corporation shall furnish to the Bond Insurer satisfactory evidence that such policy has been renewed or replaced or is no longer required by the Corporation Agreements. All policies evidencing such required insurance shall provide for thirty (30) days prior written notice to the Corporation and the Bond Insurer of any cancellation, reduction in amount or material change in coverage, except in the event of nonpayment of premiums on such insurance in which case the policies may provide for ten (10) days for such prior written notice.

b. Insurance Consultant. The Corporation shall, not less frequently than every two years (every year in the case of self-insurance), retain a Consultant and provide to the Trustee and the Bond Insurer a copy of the Consultant's report (which shall state that the recommended insurance coverage meets the standards of the Loan Agreement and is available on a commercially reasonable basis) and all recommendations of the Consultant. All policies of insurance and bonds required by the Loan Agreement shall be in amounts and shall contain such provisions as comply with the written recommendations of the Consultant; provided that, notwithstanding any other provision, the Corporation shall not be required to provide insurance coverage which, in the written opinion of the Consultant, is for risks not normally covered or is in excess of standard requirements, if any, for facilities similar in size, location and nature to the Facilities. If the Consultant makes recommendations for the increase of any of the coverage, the Authorized Representative of the Corporation shall increase such coverage in accordance with such recommendations, subject to a good faith determination of the Corporation's board of directors that such recommendations, in whole or in part, are in the best interests of the Corporation.

c. Casualty; Condemnation; Loss of Title. If any of the Facilities shall be wholly or partially destroyed or damaged by fire or other casualty covered by insurance required under the Loan Agreement, or if any of the Facilities shall be wholly or partially condemned, taken or injured by any Person, including any Person possessing the right to exercise the power of (or a power in the nature of) eminent domain or transferred to such a Person, by way of a conveyance in lieu of the exercise of such a power by such Person, or if any part of any of the Facilities shall be lost because of failure of title, the Corporation covenants that it will promptly notify the Trustee and the Bond Insurer of such event and will take all actions and will do all things which may be necessary to enable recovery to be made upon such policies of insurance (including title insurance) or on account of such taking, condemnation, conveyance, damage, injury or loss of title in order that moneys due on account of losses suffered may be collected and paid to the Trustee and applied as provided herein. Any adjustment of loss or damage and any settlement or payment therefore, which may be agreed upon by the Corporation and the appropriate insurer or condemner or other Person, shall be evidenced to the Trustee and the Insurer by a certificate signed by an Authorized Representative of the Corporation. The Trustee may rely conclusively upon such certificate.

d. Proceeds of Hazard Insurance.

(a) Immediately after occurrence of loss or damage to the Facilities which is reasonably expected to exceed an amount equal to one percent (1%) of book value of the Corporation based on its most recent audited financial statements, the Corporation shall notify the Trustee and the Bond Insurer thereof. The Corporation shall engage the services of an architect, who promptly shall determine and advise the Trustee, the Bond Insurer and the Corporation, in writing, whether it is practicable to repair, reconstruct or replace such damaged or destroyed or condemned or lost property and, if so, the estimated time and funds required for such repair, reconstruction or replacement; provided that the advice of the architect shall not be required if the estimated cost of repair, reconstruction or replacement, as set forth in reasonable detail in a Certificate delivered to the Trustee and the Bond Insurer, is less than one million dollars ($1,000,000). In the event that the amount of damage or destruction is in excess of five percent (5%) of book value of the Corporation and/or current value and/or affects more than five percent (5%) of operating revenues, the proceeds of insurance required by the Loan Agreement shall be applied as provided in paragraphs (b), (c) and (d), below.

(b) If the architect shall advise that such repair, reconstruction or replacement is practicable, and if, within ninety (90) days from the receipt of the architect's report the Corporation delivers to the Trustee and the Bond Insurer:

(i) a written report of a Management Consultant or, if the estimated cost of repair, reconstruction or replacement, as set forth in reasonable detail in a Certificate of the Corporation delivered to the Trustee and the Insurer, is less than one million dollars ($1,000,000), a Certificate of the Corporation, stating that, in the signer's opinion, based upon information provided by the Management Consultant or, if unavailable, based upon the Corporation's best judgment of the net insurance proceeds anticipated, the Corporation will have sufficient funds from the net proceeds of insurance (including business income insurance and other available funds) to make Loan Payments, to pay the cost of repairing, restoring or replacing the portion of the Facilities affected by such loss or damage and to pay all operating expenses until completion of the repair, reconstruction or replacement of such part of the Facilities which is affected by such loss or damage and for the first full Fiscal Year after such completion;

(ii) an executed construction contract for such work at a guaranteed maximum price or fixed price;

(iii) cash or an irrevocable letter of credit in an amount at least equal to the excess, if any, of the funds necessary for payment of the amounts due under such construction contract, over the available net insurance proceeds; and

(iv) the surety bonds and insurance during construction required under the Loan Agreement;

then the Corporation shall promptly proceed to repair, reconstruct and replace such part of the Facilities, including all fixtures, furniture, equipment and affects, to its original condition insofar as possible. The moneys required for such repair, reconstruction and replacement shall be paid: (x) from the net proceeds of insurance (other than proceeds of business income insurance which shall be applied as provided in paragraph (v) below) received by reason of such occurrence, with net proceeds (after deducting any reasonable expenses incurred by the Trustee or the Corporation in collecting the same, the "Net Insurance Proceeds") shall be deposited into an Insurance and Condemnation Proceeds Fund (referred to herein as the "Fund") or with any trustee selected by the Corporation which qualifies as a successor trustee under of the Bond Indenture (in which case the term "Trustee," as used herein shall refer to such trustee), and (y) to the extent that such Net Insurance Proceeds are not sufficient, from moneys to be provided by the Corporation, which shall be deposited with the Trustee. The funds so deposited shall be maintained in a separate account and shall be disbursed by the Trustee only upon receipt by the Trustee

of a requisition, numbered consecutively upwards from 1, signed by an Authorized Representative of the Corporation and an architect (each a "Requisition") and which shall state (i) the name and address of the Person to whom the payment is to be made, (ii) the amount to be paid, (iii) the obligation on account of which the payment is to be made, showing the total obligation, any amount previously paid, and the unpaid balance, (iv) that the obligation was properly incurred and is a proper charge against the Fund, (v) that the amount requisitioned is due and unpaid, (vi) that with respect to items covered in the Requisition, there are no vendors', mechanics', or other liens, bailment leases or conditional sale contracts which should be satisfied or discharged before the payments as requisitioned therein are made, or which will not be discharged before the payments requisitioned therein are made, or which will not be discharged by such payment unless covered by the endorsement described below, (vii) that the amount remaining in the Fund after the payment of the Requisition will be sufficient to pay all remaining costs of the project, (viii) that the work can be completed within the time shown on the schedule, and (ix) that the work performed or materials supplied is satisfactory to the Corporation.

Such Requisition shall be accompanied by a Certificate of the Corporation that it has received acknowledgments of payment and waivers of lien from all persons supplying labor or materials for all lienable work done and materials delivered through the date of the previous requisition and bills of sale or equivalent documentation for any personal property included in the Requisition.

Notwithstanding the foregoing, if the estimated cost of such repair, reconstruction or replacement is less than one million dollars ($1,000,000), the Corporation shall not be required to deliver the items referred to in clauses (1) through (4) above, the Net Insurance Proceeds shall be paid to the Corporation and the Corporation shall promptly proceed with such repair, reconstruction or replacement. Any Net Insurance Proceeds remaining after the completion of such repair, replacement or reconstruction shall promptly, at the direction of the Corporation's Authorized Representative, be transferred to the Bond Trustee and applied to extraordinary redemption of Bonds pursuant to the Bond Indenture.

(c) Notwithstanding the foregoing, if the Management Consultant advises in a written report delivered to the Trustee and the Bond Insurer that (i) the Facilities can continue to operate effectively with less than full repair, reconstruction and replacement thereof and the Corporation can continue to maintain the requirements of the Loan Agreement for the next two full Fiscal Years, and (iii) there are not deficiencies n any of the funds established under the Bond Indenture, then any Net Insurance Proceeds remaining after the completion of partial repair, reconstruction or replacement (if any) shall promptly be transferred to the Bond Trustee and applied to extraordinary redemption of Bonds pursuant to the Bond Indenture.

(d) If the architect advises that such repair, reconstruction or replacement is not practicable, or if the architect's report is not received within sixty (60) days of the occurrence or the Management Consultant's report and other documents described in subsection (b) above are not delivered within the required time period, then all Net Insurance Proceeds shall be deposited with the Bond Trustee and applied to extraordinary redemption of Bonds pursuant to the Bond Indenture or as otherwise approved by the Bond Insurer; provided however, that in the case of damage to or destruction of all or substantially all of the Facilities the Corporation shall pay to the Trustee an amount sufficient, together with the Net Insurance Proceeds, to prepay all Bonds Outstanding.

(e) The proceeds of business income insurance required by the Loan Agreement shall be applied for the purposes described therein.

e. Eminent Domain. Immediately after the commencement of any condemnation or similar proceedings by a third party in the exercise of a power of eminent domain, or a power in the nature of

eminent domain affecting the Facilities the Corporation shall notify the Trustee and the Bond Insurer in writing.

(a) Any such condemnation awards or other compensation received shall be applied as provided in paragraphs (b) through (f) below.

(b) The proceeds of any condemnation award or other compensation paid by reason of a conveyance in lieu of the exercise of such power, with respect to all or substantially all the Facilities (after deducting any costs or expenses incurred by the Bond Trustee or the Corporation in collecting the same, the "Net Condemnation Proceeds") shall be paid to the Trustee for application to extraordinary redemption of Bonds pursuant to the Bond Indenture, and the Corporation shall pay to the Trustee prior to the prepayment date any additional amount required to effect such redemption. Any Net Condemnation Proceeds received for a taking of less than substantially all of the Facilities shall be applied as provided in paragraphs (c) through (f) below.

(c) Notwithstanding paragraph (d) below, if the estimated cost of replacing or restoring the portion of the Facilities affected by such taking or conveyance is less than one million dollars ($1,000,000), the Corporation shall not be required to deliver the items referred to in paragraph (d) below, the Net Condemnation Proceeds shall be paid to the Corporation and the Corporation shall promptly proceed to replace or restore such portion of the Facilities; provided that the Corporation shall not be required to replace or restore such portion of the Facilities so long as the Corporation delivers to the Trustee (i) a Certificate to the effect that such failure to replace or restore shall not affect the Corporation's ability to comply with the provisions of the Loan Agreement (ii) an Opinion of Bond Counsel to the effect that such failure to replace or restore will not have an adverse effect on any exclusion from gross income for federal income tax purposes of the interest on the Tax-Exempt Bonds.

(d) If, within ninety (90) days of receipt of such condemnation award, or other compensation which is greater than one million dollars ($1,000,000), the Corporation delivers to the Bond Trustee and the Bond Insurer a written Statement of an architect stating such architect's estimate of the cost of replacing or restoring the portion of the Facilities affected by such taking or conveyance and

(e) a Management Consultant's report or, if the estimated cost of replacement or restoration, as set forth in reasonable detail in a Certificate of the applicable Corporation delivered to the Trustee and the Bond Insurer is less than one million dollars ($1,000,000), a Certificate of the Corporation, stating that, in the signer's opinion, the Corporation will have sufficient funds from the Net Condemnation Proceeds (and from proceeds of use and occupancy insurance and other available funds) to make the Loan Payments to pay the cost of replacing or restoring the portion of the Facilities affected by such taking or conveyance and to pay all operating expenses until completion of the replacement or restoration of such portion of the Facilities which is affected by such taking or conveyance and for the first full Fiscal Year after such completion, then:

(i) The Corporation may elect to replace or restore the portion of the Facilities affected by such taking or reconveyance, in which event the Corporation shall promptly proceed to replace or restore such portion of the Facilities, including any fixtures, furniture, equipment and effects, to its original usefulness and condition insofar as possible (unless the Corporation delivers to the Trustee and the Bond Insurer an Opinion of Bond Counsel to the effect that the Corporation's failure to replace or restore such portion of the Facilities to the original usefulness and condition will not have an adverse effect on any exclusion from gross income for federal income tax purposes of the interest on the Bonds), provided that the Corporation has delivered to the Trustee and the Bond Insurer (i) an executed construction contract for such work at a price not greater than the amount stated in such architect's report and (ii) cash or an irrevocable letter of credit in an amount equal to the funds, if any, required by such

architect's report in excess of the available Net Condemnation Proceeds, and (iii) any surety bonds and insurance during construction required under the Loan Agreement. The moneys required for such replacement or restoration shall be paid: (x) from the Net Condemnation Proceeds which shall be deposited into a Project Fund and disbursed in accordance with the requisition procedure established in the Loan Agreement; and

(y) to the extent that such proceeds are not sufficient from moneys to be provided by the Corporation; or

(ii) The Corporation may elect to have all or part of such Net Condemnation Proceeds applied to the prepayment of Outstanding Bonds in direct order of maturity, and the Corporation shall pay any additional amount required to effect such prepayment; or

(iii) If the Statements of the architect and the Management Consultant required by this paragraph (e) are not delivered within the required time period, then the Net Condemnation Proceeds shall be deposited with the Bond Trustee and applied to the extraordinary redemption of Bonds pursuant to the Bond Indenture, and the Corporation shall pay prior to the prepayment date any additional amount required to effect such redemption.

(f) Any Net Condemnation Proceeds remaining after the completion of such replacement or reconstruction shall promptly at the direction of the Corporation be transferred to the Trustee applied to the extraordinary redemption of Bonds pursuant to the Bond Indenture.

(g) Notwithstanding the foregoing, if the Management Consultant advises in a written report delivered to the Trustee and the Bond Insurer that (i) the Facilities can continue to operate effectively with less than full replacement or restoration of the portion of the Facilities affected by such taking or conveyance, (ii) the Corporation can continue to comply with the Loan Agreement for the following two (2) full Fiscal Years, and (iii) there are no deficiencies in any of the Funds established under the Trust Agreement, then any Net Condemnation Proceeds shall promptly be applied in accordance with paragraph (f) above.

PARTICULAR COVENANTS

a. Maintenance of Corporate Existence and Status. Unless the Corporation complies with the following provisions, the Corporation agrees that as long as any Bonds are Outstanding it will maintain its existence, will not dissolve, liquidate or otherwise dispose of all or substantially all of its assets, and will not consolidate with or merge into another corporation or permit one or more other corporations to consolidate with or merge into it. Any dissolution, liquidation, disposition, consolidation or merger shall be subject to the following conditions:

1. the Corporation provides a certificate to the Bond Trustee, in form and substance satisfactory to such parties, to the effect that no event of default exists hereunder or under the Bond Indenture and that no event of default will be caused by the dissolution, liquidation, disposition, consolidation or merger;

2. the entity surviving the dissolution, liquidation, disposition, consolidation or merger assumes in writing and without condition or qualification the obligations of the Corporation under the Corporation Agreements;

3. the Corporation or the entity surviving the dissolution, liquidation, disposition, consolidation or merger, within ten days after execution thereof, furnishes to the Authority and the Bond Trustee a true and complete copy of the instrument of dissolution, liquidation, disposition, consolidation or merger;

4. neither the validity nor the enforceability of the Bonds, the Bond Indenture or any agreements to which the Corporation is a party is adversely affected by the dissolution, liquidation, disposition, consolidation or merger;

5. the dissolution, liquidation, disposition, consolidation or merger will not adversely affect any exemption from federal income taxation to which interest on the Tax-Exempt Bonds would otherwise be entitled;

6. evidence that no rating on the Bonds, if the Bonds are then rated, is reduced or withdrawn as a result of the dissolution, liquidation, disposition, consolidation or merger;

7. any successor to the Corporation shall be qualified to do business in the State and shall continue to be qualified to do business in the State throughout the term hereof;

8. (i) neither the validity or enforceability of the Corporation Agreements adversely affected by the dissolution, liquidation, disposition, consolidation or merger, and (ii) the provisions of the Act, the Bond Indenture and Corporation Agreements are complied with concerning the dissolution, liquidation, disposition, consolidation or merger;

9. The Corporation provides an Officer's Certificate to the Bond Trustee stating that the Corporation or successor, as applicable, immediately following the dissolution, liquidation, disposition, consolidation or merger, will be able to issue at least one dollar of additional Long-Term Indebtedness;

10. The Corporation provides an Officer's Certificate to the Bond Trustee stating that the Debt Service Coverage Ratio of the Corporation or successor, as applicable, after giving effect to the transaction, will not be les than 1.35 and 65% of what it was prior to the transaction, or alternatively, with the consent of the Bond Insurer, the Debt Service Coverage Ratio will be higher than it was prior to the transaction;

11. The Corporation provides an Officer's Certificate to the Bond Trustee stating that the Obligor or successor, as applicable, immediately following the dissolution, liquidation, disposition, consolidation or merger, will have not less than 250 Days Cash on Hand; and

12. the Authority has executed a certificate acknowledging receipt of all documents, information and materials required by the foregoing.

As of the effective date of the dissolution, liquidation, disposition, consolidation or merger, the Corporation (at its cost) shall furnish to the Authority and Bond Trustee (i) an opinion of Bond Counsel, in form and substance satisfactory to such parties, as to items (d) and (e) above, and (ii) an opinion of Independent Counsel, in form and substance satisfactory such parties, as to the legal, valid and binding nature of item (b) and (h) above.

The Corporation further covenants that none of its money, property or other assets will be distributed to any of its directors or officers or to any other private person or individual; provided, however, that the Corporation may pay compensation or provide payment in kind in a reasonable amount

for services rendered, including for service as a director only, or otherwise distribute its money, property or other assets to its directors, officers or any other private person or individual if such distribution is permitted by the California Nonprofit Corporation Public Benefit Corporation Law, and is otherwise permitted under the terms hereof.

b. Financial Statements, Etc. The Corporation covenants that it will keep or cause to be kept proper books of records and accounts in which full, true and correct entries will be made of all dealings or transactions of, or in relation to, the business and affairs of the Corporation in accordance with generally accepted principles of accounting consistently applied, except as reflected in the notes thereto, and will furnish: (a) the financial statements, materials and notices required to be delivered to the Authority, the Bond Insurer and the Bond Trustee, and (b) any information reasonably requested by the Bond Insurer to the extent reasonably necessary to perform the Bond Insurer's monitoring evaluation, to the Bond Insurer. In addition to the foregoing, the Corporation covenants that it will provide notification to the Bond Insurer in the event of any significant change in the financial condition of the Corporation and will deliver to the Bond Insurer the following:

1. Annual audited financial statements within 150 days after the end of each Fiscal Year;

2. Quarterly unaudited financial statements of the Corporation within forty-five (45) days after the end of each of its fiscal quarters;

3. A copy of the budget of the Corporation for the next succeeding fiscal year fifteen (15) days prior to the end of each Fiscal year;

4. A copy of any audit or other material report of the Corporation within twenty (20) days of completion of such audit or report and thereafter as updated;

5. A copy of any notice or report required to be given to the Bond Trustee, the registered Bondholders or any other party to any of the documents executed in connection with the issuance of the Bonds, including, without limitation, notice of any redemption of or defeasance of the Bonds, and any certificate rendered pursuant to such documents relating to the security for the Bonds;

6. A copy of any information filed with the Corporation with any NRMSIR; and

7. Such additional information as the Bond Insurer may reasonably request.

The Corporation will permit the Bond Insurer and/or the Bond Insurance Trustee to discuss the affairs, finances and accounts of the Authority or any information the Bond Insurer may reasonably request regarding the security for the Bonds with appropriate officers of the Authority. The Corporation and the Authority will permit the Bond Insurer and/or the Bond 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. Maintenance and Repair; Insurance. The Corporation will maintain the Bond Financed Property in a safe and sound operating condition, making from time to time, all needed material repairs thereto, and shall maintain reasonable amounts of insurance coverage with respect to the Bond Financed Property and shall pay all costs of such maintenance, repair and insurance, as may be standard in the industry.

c. Liquidity Covenant. (1) On each July 31 and December 31, commencing with December 31, 2007, the Corporation shall maintain at least Two Hundred Fifty (250) Days Cash On Hand.If the Corporation fails to maintain Days Cash on Hand as required in subsection (a), the

Corporation shall, within 20 days thereafter, employ a Management Consultant to make recommendations as to how to come into compliance with subsection (a) and such recommendations shall be implemented. If the Management Consultant has been engaged and such recommendations are being implemented, such failure to meet the Liquidity Test shall not constitute a Loan Agreement Default hereunder, unless the Liquidity Covenant is not met for an additional two (2) consecutive test periods or Days Cash on Hand declines below 250 days.

d. Rate Covenant. (1) The Corporation shall operate the Facilities as a revenue producing continuing care retirement community. 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 ending December 31, 2007, to produce a Debt Service Coverage Ratio of not less than 1.20 for such Fiscal Year.

(2) Within one hundred twenty (120) days after the end of each Fiscal Year, the Corporation shall compute the Debt Service Coverage Ratio for such Fiscal Year and promptly furnish to the Trustee a Statement setting forth the results of such computation. The Corporation further covenants and agrees that if at the end of each Fiscal Year and thereafter, the Debt Service Coverage Ratio shall have been less than 1.20 for such Fiscal Year, it 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 the Debt Service Coverage Ratio required by Subsection (a), above, in the current Fiscal Year. The Corporation shall, 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.

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 herein for such Fiscal Year and it shall not constitute a Loan Agreement Default hereunder, notwithstanding that the Debt Service Coverage Ratio shall be less than the amount required under Subsection (a) above; unless the Debt Service Coverage Ratio is not met for two consecutive Fiscal Years or the Debt Service Coverage Ratio shall be less than 1.0 for any Fiscal Year. It is further provided that the preceding sentence shall not be construed as in any way excusing the Corporation from taking any action or performing any duty required under the Loan Agreement or be construed as constituting a waiver of any other event of default under the Loan Agreement.

(3) 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 Corporation, 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 Consultant.

e. 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.

f. Limitation on Disposition and Acquisition of Facilities and Cash. The Corporation covenants and agrees that it will not sell, lease or otherwise dispose of any part of its assets except that it may:

(1) Sublease or license the use of its Facilities pursuant to a resident agreement or for use in performing services necessary for the use of the Corporation's facilities for senior residential and care services and related purposes in accordance with customary practices in the industry; or

(2) Remove, sell or dispose of operating assets in the ordinary course of business; or

(3) Remove, sell or dispose of operating assets up to an aggregate value equal to ten percent (10%) of fair market value of property, plant and equipment in any two consecutive fiscal years with or without consideration.

(4) Sell, lease, donate, exchange or dispose of any non-operating assets (including cash and cash equivalents) with or without consideration in the ordinary course of business or with (i) an Officer's Certificate stating that the Corporation or successor, as applicable, immediately following the transfer or disposition, will have not les than 250 Days Cash on Hand; (ii) an Officer's Certificate stating that the Corporation or successor, as applicable, immediately following the transfer or disposition, will be able to issue at least one dollar of additional Long-Term Indebtedness; and (iii) an Officer's Certificate stating that the Deb Service Coverage Ratio of the Corporation or successor, as applicable, after giving effect to the transaction, will not be less than 1.35 and 65% of what it was prior to the transaction, or alternatively, with the consent of the Bond Insurer, the Debt Service Coverage Ratio will be higher than it was prior to the transaction.

g. Limitation on Indebtedness. The Corporation shall not incur any Indebtedness, except the Corporation may incur the following:

(1) Obligations and liabilities (which may be Parity Debt) under the Loan Agreement, the Liquidity Facility, the Pre-Issuance Interest Rate Agreements or the Indenture, including any supplements or amendments thereto or hereto in connection with the execution and delivery of any Additional 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 provided that it is incurred in the ordinary course of business in an aggregate principal amount not to exceed ten percent (10%) of Annual Operating Revenues for the most Recent Fiscal Year for which audited financial statements are available and (i) all such Short-Term Indebtedness shall be reduced to zero for a period of seven (7) consecutive days during each Fiscal Year, or it is reduced to an amount equal to three percent (3%) of the Corporation’s Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available, for a period of twenty (20) consecutive days;

(4) Liabilities for contributions to self-insurance programs;

(5) Long-Term Indebtedness (which may be Parity Debt), provided that:

(i) The Debt Service Coverage Ratio, as certified by a written report of an Accountant which shall be filed with the Trustee for each of the two most recent Fiscal Years for which audited financial statements are available immediately preceding the date of incurrence of such long-term Indebtedness taking into account outstanding and proposed Long-Term Indebtedness was at least equal to 1.35 times Maximum Annual Debt Service on all outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, or

(ii) Income Available for Debt Service, as certified by a written report of an accountant which shall be filed with the Trustee, for each of the two most recent Fiscal Years for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.35 times Maximum Annual Debt Service on all Long-Term Indebtedness then outstanding, and

(iii) Income Available for Debt Service, as shown in a written feasibility report prepared by a Management Consultant and filed with the Trustee, 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 projected to be at least 1.45 times Maximum Annual Debt Service on all Long-Term Indebtedness proposed to be outstanding at the end of each such Fiscal Year;

(6) 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 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;

(7) Non-Recourse Indebtedness, provided that such indebtedness does not encumber the Facilities and the aggregate principal amount of all Non-Recourse Indebtedness outstanding upon the incurrence of the Non-Recourse Indebtedness in question does not exceed 10% of the Corporation's Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available;

(8) Refunding Indebtedness issued for the purpose of refunding Long-Term Indebtedness, provided that issuance of such Indebtedness does not result in an increase in Maximum Annual Debt Service.

h. Parity Debt. The Corporation may incur Parity Debt, subject, however, to compliance with limitations on Indebtedness set forth in the Loan Agreement, if applicable, and subject to the following conditions:

(a) The Bond Trustee shall act as trustee for the Parity Debt;

(b) The agreement under which Parity Debt is issued shall require that:

(i) A Loan Default Event shall constitute an event of default under such agreement;

(ii) 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;

(iii) Remedies upon an event of default shall be substantially the same as the remedies provided in the Indenture, 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 Bond Trustee to the end that the interests of such holders and the Bondholders shall be equally protected; and

(iv) Any collateral given or to be given to secure Parity Debt shall also secure the Bonds on a pari passu basis; provided that the Debt Service Reserve Fund shall only secure the Bonds or Additional Bonds and the Corporation may, but need not, establish similar reserve accounts for debt service on Parity Debt.

i. Maintenance and Repairs; Taxes; Utility and Other Charges. The Corporation agrees to maintain the Facilities (i) in as reasonably safe condition as its operations shall permit and (ii) in good repair and in good operating condition, ordinary wear and tear excepted, making from time to time all necessary repairs thereto and renewals and replacements thereof.

The Corporation agrees to pay or cause to be paid during the term of the Loan Agreement all taxes, governmental charges of any kind lawfully assessed or levied upon the Project or any part thereof, including any taxes levied against any portion of the Project which, if not paid, will become a charge on the receipts from the Project prior to or on a parity with the charge thereon and the pledge or assignment thereof to be created therefrom or under the Loan Agreement, all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of any portion of the Project and all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on the Project, provided that with respect to special assessments or other governmental charges that may lawfully be paid in installments over a period of years, the Corporation shall be obligated to pay only such installments as are required to be paid during the term of the Loan Agreement. The Corporation may, at the Corporation's expense and in the Corporation's name, in good faith, contest any such taxes, assessments and other charges and, in the event of any such contest, may permit the taxes, assessments or other charges so contested to remain unpaid during that period of such contest and any appeal there from unless by such nonpayment the Project or any part thereof will be subject to loss or forfeiture.

j. Continuing Disclosure. The Corporation covenants and agrees to comply with the continuing disclosure requirements promulgated under Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, if and to the extent that such requirements are applicable to any of the Bonds. Notwithstanding any other provision of the Loan Agreement, failure of the Corporation to comply with the requirements of Rule 15c2-12, as it may from time to time hereafter be amended or supplemented, shall not be considered a Loan Default Event; however, the Bond Trustee, at the written request of the Remarketing Agent, the Tender Agent or the Holders of at least 25% aggregate principal amount of Outstanding Bonds of any series, shall, but only to the extent indemnified to its satisfaction from and against any cost, liability or expense related thereto, including, without limitation, reasonable fees and expenses of its attorneys and advisors and additional fees and expenses of the Bond Trustee or any Holder or beneficial owner of the Bonds, 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..

INVESTMENT OF FUNDS; COMPLIANCE WITH TAX REQUIREMENTS

The Corporation covenants and agrees that moneys on deposit in any Fund under the Bond Indenture shall at all times be invested by the Bond Trustee in Qualified Investments and that the

Corporation will take all actions necessary, including without limitation providing the Bond Trustee with, or causing the Bond Trustee to receive, all necessary directions in writing to assure that such moneys are continuously invested in accordance with the provisions of the Bond Indenture and the Tax Certificate. In the absence of any direction by the Corporation, moneys on deposit in any Fund under the Bond Indenture shall not be invested. The Bond Trustee is authorized to trade with itself in the purchase and sale of securities as provided in the Bond Indenture until otherwise directed by the Corporation in an Officer's Certificate.

CORPORATION'S OBLIGATIONS UNCONDITIONAL

The Authority and the Corporation agree that the Corporation shall bear all risk of damage, destruction or loss of title in whole or in part to its Property, or any part thereof, including without limitation any loss, complete or partial, or interruption in the use, occupancy or operation of such Property, or any manner or thing which for any reason interferes with, prevents or renders burdensome, the use or occupancy of its Property or the compliance by the Corporation with any of the terms of the Loan Agreement. In furtherance of the foregoing, but without limiting any of the other provisions of the Loan Agreement, the Corporation agrees that its obligations to pay the principal, premium, if any, and interest owing under the Loan Agreement, to pay the other sums provided for in the Loan Agreement and to perform and observe its other agreements contained in the Loan Agreement shall be absolute and unconditional and that the Corporation shall not be entitled to any abatement or diminution thereof nor to any termination of the Loan Agreement for any reason whatsoever. Under no circumstances shall payments on the Bonds made pursuant to payments by the Bond Insurer under the Bond Insurance Policies diminish, abate or otherwise discharge the obligations of the Corporation under the Loan Agreement.

EXCHANGE OF BONDS

In the event the Act or the Authority created thereunder is determined to be unconstitutional under the laws of the State or under the laws of the United States of America, and as a result thereof, the Bonds issued by the Authority are declared to be invalid and unenforceable, then the Corporation agrees that it will issue its own bonds (the interest on which may not be exempt from federal income tax) in exchange for an amount of Bonds equal to the then outstanding Bonds, principal amount for principal amount, having the same rates of interest, maturity, redemption provisions and prepayment provisions as are then applicable to the Bonds being exchanged. The bonds to be issued by the Corporation will be issued under an indenture having substantially the same terms and provisions as the Bond Indenture and the Loan Agreement and such bonds of the Corporation will be issued thereunder in exchange for an amount of Bonds equal to the Bonds surrendered by the registered owners thereof. Notice of any such exchange shall be given as provided for redemption of the Bonds under the Bond Indenture and the expenses of such exchange, including the printing of the bonds and other reasonable expenses in connection therewith, shall be borne by the Corporation.

DISCHARGE OF ORDERS

The Corporation covenants to cause any order, writ or warrant of attachment, garnishment, execution, replevin or similar process filed against any part of the funds or accounts held by the Bond Trustee under the Bond Indenture to be discharged, vacated, bonded or stayed within 90 days after such filing (which 90-day period shall be extended for so long as the Corporation is contesting such process in good faith), but, notwithstanding the foregoing, in any event not later than five days prior to any proposed execution or enforcement with respect to such filing or any transfer of moneys or investments pursuant to such filing.

LIQUIDITY FACILITY; SUBSTITUTE LIQUIDITY FACILITY

While any Bonds bear interest at the Daily Rate or the Weekly Rate, the Corporation shall furnish a Liquidity Facility (or, if a Liquidity Facility is then in existence, a Substitute Liquidity Facility in substitution for the Liquidity Facility then in effect if permitted by the Liquidity Facility then in effect) to the Tender Agent to provide for the purchase of the Bonds bearing interest at the Daily Rate or the Weekly Rate upon their optional or mandatory tender in accordance with the Bond Indenture. Any Liquidity Facility (or Substitute Liquidity Facility) shall be a facility provided by a Liquidity Facility Provider in an amount equal to the Required Stated Amount for such Bonds with a term of at least 360 days from the effective date thereof, and such Liquidity Facility Provider and such Liquidity Facility (including, without limitation, any Liquidity Facility provided by the Corporation or any affiliate thereof) shall be subject to the approval of the Bond Insurer.

The Corporation shall give at least 90 days' written notice to the Bond Trustee, the Bond Insurer and the Tender Agent of (1) its intent to furnish a Liquidity Facility or Substitute Liquidity Facility to the Tender Agent, which notice shall specify the nature of such Liquidity Facility, the identity of the Liquidity Facility Provider, the Bonds to have the benefit of the Liquidity Facility, and the proposed effective date and scheduled termination date of the Liquidity Facility and (2) its intent to terminate a Liquidity Facility then in effect, which notice shall specify the proposed termination date for such Liquidity Facility.

The Corporation covenants and agrees that at all times while any Bonds are outstanding which bear interest at the Daily Rate or Weekly Rate, if the rating of the Liquidity Facility Provider is lowered by either Moody's, Fitch or S&P below "A 1" or "VMIG 1," respectively, then the Corporation shall, unless otherwise consented to in writing by the Bond Insurer, use its best efforts to obtain a Substitute Liquidity Facility within 90 days of receipt of notice of the downgrade of the rating of the Liquidity Facility Provider.

SUPPLEMENTS AND AMENDMENTS TO THE LOAN AGREEMENT

The Corporation, with the consent of the Authority, the Bond Insurer, the Liquidity Facility Provider and the Bond Trustee may from time to time enter into such supplements and amendments to the Loan Agreement as to them may seem necessary or desirable to effectuate the purposes or intent of the Loan Agreement; provided, however, that no such amendment shall be effective if not adopted in accordance with the terms of the Bond Indenture. An executed copy of any of the foregoing amendments, changes or modification shall be filed with the Bond Trustee. The Bond Trustee, with the consent of the Bond Insurer, may grant such waivers of compliance by the Corporation with provisions of the Loan Agreement as to which the Bond Trustee may deem necessary or desirable to effectuate the purposes or intent of the Loan Agreement and which, in the opinion of the Bond Trustee, do not have a material adverse effect upon the interests of the Bondholders, provided that the Bond Trustee shall file with the Authority any and all such waivers granted by the Bond Trustee within three (3) business days thereof.

DEFAULTS AND REMEDIES

The occurrence and continuance of any of the following events shall constitute an "event of default" under the Loan Agreement:

(a) failure of the Corporation to pay any installment of interest, principal or premium under the Loan Agreement or any other payment required by the Loan Agreement when the same shall become due and payable, whether upon a scheduled Interest Payment Date, on a Maturity Date, upon any date fixed for prepayment, upon acceleration or otherwise; or

(b) failure of the Corporation to comply with or perform any of the covenants, conditions or provisions of the Loan Agreement, or failure of the Corporation to comply with or perform any of the covenants, conditions or provisions of the Tax Certificate and to remedy such default within 30 days after written notice thereof from the Authority, the Bond Insurer or the Bond Trustee to the Corporation and the Bond Insurer; provided that, with the prior written consent of the Bond Insurer, if such default cannot with due diligence and dispatch be wholly cured within 30 days but can be wholly cured, the failure of the Authority, the Corporation or the Bond Trustee to remedy such default within such 30 day period shall not constitute a default under the Loan Agreement if any of the foregoing shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch, provided no such cure period shall continue beyond 60 days after such notice without the written consent of the Bond Insurer; or

(c) any representation or warranty made by the Corporation in the Loan Agreement or in any statement or certificate, furnished to the Authority or the Bond Trustee or the purchaser of any Bonds in connection with the sale of Bonds or furnished by the Corporation pursuant thereto proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 30 days after written notice thereof to the Corporation and the Bond Insurer by the Authority, the Bond Insurer or the Bond Trustee, provided no such cure period shall continue beyond 60 days after such notice without the written consent of the Bond Insurer; or

(d) the Corporation admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for the Corporation, or for the major part of its Property; or

(e) a trustee, custodian or receiver is appointed for the Corporation or for the major part of its Property and is not discharged within 60 days after such appointment; or

(f) bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings, proceedings under Title 11 of the United States Code, as amended, or other proceedings for relief under any bankruptcy law or similar law for the relief of debtors are instituted by or against the Corporation (other than bankruptcy proceedings instituted by the Corporation against third parties), and if instituted against the Corporation are allowed against the Corporation or are consented to or are not dismissed, stayed or otherwise nullified within 60 days after such institution; or

(g) payment of any installment of interest, principal or premium on any Bond shall not be made when the same shall become due and payable under the provisions of the Bond Indenture; or

(h) failure of the Corporation to comply with or perform its obligations pursuant to the Loan Agreement.

The Corporation will give Immediate Notice to the Authority, the Bond Insurer and the Bond Trustee of any Event of Default described in (d) through (h).

Upon the occurrence and during the continuance of any event of default under the Loan Agreement and subject to compliance with the Loan Agreement, the Authority shall have the following rights and remedies, in addition to any other remedies in the Loan Agreement or by law provided:

(A) Upon the occurrence and continuance of an event of default under the Loan Agreement, the Bond Trustee, as assignee of the Authority, may, with the written consent of the Bond Insurer, and

shall, at the written direction of the Bond Insurer, by written notice to the Corporation, declare all amounts payable pursuant to the Loan Agreement immediately due and payable.

(B) The Bond Trustee, as assignee of the Authority, may in its discretion, with the written consent of the Bond Insurer, and shall, upon indemnification to its satisfaction and upon the written direction of the Bond Insurer, with or without entry, personally or by attorney, proceed to protect and enforce its rights by pursuing any available remedy including a suit or suits in equity or at law, whether for damages or for the specific performance of any obligation, covenant or agreement contained in the Loan Agreement, or in aid of the execution of any power granted in the Loan Agreement, or for the enforcement of any other appropriate legal or equitable remedy, as the Bond Trustee shall deem most effectual to collect the payments then due and thereafter to become due or to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement, or to protect and enforce any of the Authority's rights or duties under the Loan Agreement.

SUMMARY OF CERTAIN PROVISIONS OF THE DEED OF TRUST

The obligations of the Corporation pursuant to the Loan Agreement, the Liquidity Facility, the Pre-Issuance Interest Rate Agreements and other Parity Debt are secured by the lien of the Deed of Trust upon the Facilities (including certain real property owned by the Corporation together with all permanent improvements thereon and all fixtures and equipment now or hereafter installed or situated thereon until such time as such obligations are paid in full).

The Deeds of Trust may be amended, changed, modified or terminated at any time, by the written consent of the Bond Insurer and the Corporation.

Upon the failure of the Corporation to perform its obligations as required under the Deed of Trust, the Bond Trustee, as beneficiary under the Deed of Trust, may elect (subject to direction pursuant to the Bond Indenture) 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 Facilities.

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APPENDIX D

FORM OF BOND COUNSEL OPINION

May 2, 2007

Casa de las Campanas, Inc.

ABAG Finance Authority for
Nonprofit Corporations

U.S. Bank National Association.

Cain Brothers & Company, LLC

Radian Asset Assurance Inc.

Re: $28,700,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007A and $16,945,000 ABAG Finance Authority for Nonprofit Corporations Taxable Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007B

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the ABAG Finance Authority for Nonprofit Corporations (the "Issuer"), of its $28,700,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007A (the "Tax-Exempt Bonds") and $16,945,000 ABAG Finance Authority for Nonprofit Corporations Taxable Variable Rate Revenue Refunding Bonds (Casa de las Campanas, Inc.) Series 2007B (the "Taxable Bonds" and, together with the Tax-Exempt Bonds, the "Bonds").

All capitalized terms used herein and not otherwise defined shall have the same meanings as ascribed to them under the Bond Trust Indenture (the "Indenture") between the Issuer and U.S. Bank National Association, as trustee (the "Trustee"), dated as of May 1, 2007.

The description of the Bonds in this opinion and other statements concerning the terms and conditions of the issuance of the Bonds do not purport to set forth all of the terms and conditions

of the Bonds, the Indenture, the Agreement (as defined herein) or any other document relating to the issuance of the Bonds, but are intended only to identify the Bonds and to describe briefly certain features thereof.

The Bonds are dated the date of their initial authentication and delivery, were issued in fully registered form, and will mature on the date set forth in the Indenture, and bear interest on the outstanding principal balance thereof, from the date thereof, at the interest rates described in the Indenture. The Bonds are subject to mandatory and optional tender and mandatory and optional redemption prior to maturity in the manner and upon the terms and conditions set forth in the Indenture.

The Bonds are payable both as to principal and interest from certain revenues payable by the Borrower to the Issuer under the a Loan Agreement (the "Agreement") between the Issuer and Casa de las Campanas, Inc. (the "Borrower"), dated as of May 1, 2007, and from certain other sources, as more particularly described in the Indenture. The Issuer's rights under the Agreement (with certain exceptions) have been assigned to the Trustee pursuant to the terms of the Indenture.

The Bonds are being issued to (i) refund certain outstanding indebtedness and (ii) finance the acquisition and construction of certain capital improvements to properties of the Borrower and (iii) pay certain other expenses incurred in connection with the issuance of the Bonds, as more particularly described in the Indenture and the Agreement.

The Bonds and the obligations evidenced thereby do not constitute a general debt, liability or obligation of the Issuer or the State of California or any political subdivision or agency thereof, or a pledge of the faith and credit of or the taxing power of the Issuer or the State of California or any political subdivision or agency thereof. The Issuer is not obligated to pay the indebtedness evidenced by the Bonds or any interest thereon except from amounts payable to it under the Agreement, or from other collateral pledged therefor, and neither the faith and credit nor the taxing power of the Issuer or the State of California or any political subdivision or agency thereof is pledged to pay the principal of, premium, if any, or the interest on the Bonds.

In rendering the opinions set forth below, we have examined certified copies of a resolution adopted by the Issuer on April 25, 2007, authorizing the issuance of bonds in support of the Borrower (the "Issuer Resolution"), certified copies of the resolutions adopted by the Board of Directors of the Borrower and executed copies of the Indenture, the Agreement, the Tax Certificates dated May 2, 2007, executed by the Issuer and the Borrower, respectively, and various certificates and opinions delivered in connection therewith, and are relying on the covenants and agreements of the Borrower, the Issuer and the Trustee contained therein, including, without limitation, the covenant of the Borrower to comply with the applicable requirements contained in Section 103 and Part IV of Subchapter B of Chapter 1 of the Internal Revenue Code of 1986, as amended (the "Code"), and applicable regulations thereunder, to the extent necessary to preserve the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes.

We have also examined certified notices and resolutions relative to approval of the issuance of the Bonds by the Board of Supervisors of the County of San Diego and other proofs submitted to us relative to the issuance and sale by the Issuer of the Bonds.

In addition to the foregoing, we have examined and relied upon the opinion dated the date hereof of Procopio, Cory, Hargreaves & Savitch LLP as to the status of the Borrower as an organization described by Section 501(c)(3) of the Code and as to other matters set forth therein.

We have not undertaken an independent audit, examination, investigation or inspection of the matters described or contained in such certificates, representations and opinions, and have relied solely on the facts, estimates and circumstances described and set forth therein.

In our examination of the foregoing, we have assumed the genuineness of signatures on all documents and instruments, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies.

The opinions set forth below are expressly limited to, and we opine only with respect to, the laws of the State of California and the federal income tax laws of the United States of America.

Based upon and subject to the foregoing, we are of the opinion that:

(1) The Indenture has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery thereof by the other parties thereto, is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms. The Indenture creates a valid pledge of the Trust Estate on the terms and conditions set forth in the Indenture.

(2) The Bonds are valid, legally binding and enforceable special obligations of the Issuer, payable solely from certain revenues derived pursuant to the Agreement and certain other collateral pledged or encumbered therefor, in the manner described in the Indenture, the Agreement and the Bonds.

(3) The Loan Agreement has been duly executed and delivered by, and constitutes a valid and binding agreement of, the Issuer.

(4) Under existing law, the interest on the Tax-Exempt Bonds is excluded from gross income for federal income tax purposes and will not be treated as an item of tax preference for purposes of the federal alternative minimum tax; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax.

The opinions expressed in this paragraph (4) are conditioned upon compliance by the Issuer, the Bond Trustee and the Borrower with their covenants relating to certain arbitrage rebate and other tax requirements contained in Section 103 and Part IV of Subchapter B of Chapter 1 of Subtitle A of the Code (including, without limitation, their covenants to comply with the requirements contained in Section 148 of the Code), to the extent necessary to preserve the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes. Failure of the Issuer, the Bond Trustee or the Borrower to comply with such requirements could cause the interest on the Tax-Exempt Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Tax-Exempt Bonds.

Notwithstanding the foregoing, we express no opinion as to whether a conversion from one interest Mode to another interest Mode with respect to the Tax-Exempt Bonds will adversely affect the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes. The Indenture requires a favorable opinion of nationally recognized Bond Counsel with regard to such matters before any such conversion or change may be made.

Other provisions of the Code may give rise to adverse federal income tax consequences to particular holders. The scope of this opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Tax-Exempt Bonds.

(5) Stated interest on the Taxable Bonds will be treated as interest income for federal income tax purposes. Interest on the Taxable Bonds will not be excluded from gross income for federal income tax purposes.

(6) Under existing law, the interest on the Bonds is exempt from State of California personal income taxes.

In rendering the opinions expressed herein, we have relied upon:

(a) all schedules furnished to us by Cain Brothers, including those illustrating the sufficiency of the cash flow from investments held in the Escrow Deposit Trust Fund to pay the debt service on the Refunded Bonds on the maturity dates and interest payment dates thereof and those calculating the yields on the Tax-Exempt Bonds and on the Federal Securities (as defined in the Escrow Deposit Agreement) to be deposited in the Escrow Deposit Trust Fund;

(b) the report of Grant Thornton LLP, verifying the accuracy of the schedules prepared by Cain Brothers, including their calculation of the sufficiency of the cash flow from investments held in the Escrow Deposit Trust Fund to pay the debt service on the Refunded Bonds on the maturity dates and interest payment dates thereof and the mathematical calculations of the yields on the Tax-Exempt Bonds and on the Federal Securities; and

(c) the certificates and representations of the Escrow Agent as to the receipt of funds and the acquisition of the Federal Securities described in such schedules.

Our opinions expressed herein are predicated upon present laws and interpretations thereof. We assume no affirmative obligation with respect to any change of circumstances, laws or interpretations thereof after the date hereof that may adversely affect the opinions contained herein or the exclusion from gross income of interest on the Tax-Exempt Bonds for federal income tax purposes.

All opinions as to legal obligations of the Issuer and the Borrower set forth above are subject to and limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws, in each case relating to or affecting the enforcement of creditors' rights, (ii) applicable laws or equitable principles that may affect remedies or injunctive or other equitable relief, and (iii) other applicable laws that may affect remedies, but do not, in our opinion, materially impair the practical realization of available remedies or the benefits or security of the parties entitled thereto.

This opinion shall not be deemed or treated as an offering circular, prospectus or official statement, and is not intended in any way to be a disclosure document used in connection with the sale or delivery of the Bonds.

The scope of our engagement in relation to the issuance of the Bonds has been limited solely to the examination of facts and law incident to rendering the opinions expressed herein. We have not been engaged nor have we undertaken to review or verify and therefore express no opinion as to the accuracy, adequacy, fairness, completeness or sufficiency of any information or material that may have been used in the offering or placement of the Bonds. In addition, we have not passed upon and therefore express no opinion as to the compliance by the Issuer, the Borrower, or any other party involved in this financing with, or the necessity of such parties complying with, any federal or state registration requirements or security statutes, regulations or rulings with respect to the offer, sale or distribution of the Bonds.

Sincerely yours,

HOLLAND & KNIGHT LLP

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APPENDIX E

SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY

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FINANCIAL GUARANTY INSURANCE POLICY

SPECIMEN

Obligor:

Bonds:

Bond Trustee:

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___.

SPECIMEN

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.

Form FMSI-0101-CA (rev. 11/03)

APPENDIX F

AUCTION PROCEDURES

The following Auction Procedures apply to Bonds which bear interest at Auction Rates.

DEFINITIONS

In addition to the terms defined elsewhere in this Official Statement, the following terms shall have the following meanings with respect to the Bonds while they are Auction Rate Securities, unless the context otherwise requires:

"Agent Member " means a member of, or participant in, the Securities Depository who will act on behalf of a Bidder.

"All Hold Rate " means, as of any Auction Date, a per annum rate equal to 55% of the Auction Rate Index in effect on such Auction Date.

"Auction " means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auction agent appointed in accordance with the provisions summarized under the captions "Auction Agent" and "Qualification of Auction Agent; Resignation; Removal" herein.

"Auction Agreement" means an agreement, the terms and provisions of which are acceptable to the Bond Insurer, among the Auction Agent and the Corporation pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix F, as such agreement may from time to time be amended or supplemented.

"Auction Date" means the Business Day immediately preceding the first day of each Auction Period (or such other day that the Market Agent shall establish as the Auction Date therefor pursuant to the provisions summarized under the caption "Changes in Auction Period or Auction Date" herein); provided, however, that the last Auction Date in an Auction Period shall be the earlier of (i) the Business Day next preceding the last Interest Payment Date before a Mode Change Date and (ii) the Business Day next preceding the last Interest Payment Date before the Maturity Date.

"Auction Period" means for any Auction Rate Security while it is in the Auction Rate Mode:

(i) the Initial Auction Period; and

(ii) thereafter until a Mode Change Date or until the Maturity Date of such Auction Rate Security, each period of 7 days (unless changed as described in the provisions summarized under the caption "Changes in Auction Period or Auction Date") from and including the last Interest Payment Date for the immediately preceding Auction Period, to and including the next succeeding Auction Date or, in the event of an Auction Period with an Interest Payment Date on a Monday, the Sunday following the next succeeding Auction Date, or in the event of a change to a different Mode, to but excluding the Mode Change Date;

provided, if any day that would be the last day of any such period does not immediately precede a Business Day, such period shall end on the next day which immediately precedes a Business Day.

"Auction Procedures" means the procedures for conducting Auctions for the Auction Rate Securities during an Auction Period set forth in this Appendix F.

"Auction Rate" means the rate of interest to be borne by the Auction Rate Securities during each Auction Period, not greater than the Maximum Rate, determined in accordance with the provisions of the Bond Indenture, including the provisions summarized under the caption "Determination of Auction Rate" herein which (i) if Sufficient Clearing Bids exist, will be the Winning Bid Rate; provided, however, that if all of the Auction Rate Securities are the subject of Submitted Hold Orders, the Auction Rate will be the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, will be the Maximum Rate.

"Auction Rate Index " has the meaning specified in the provisions summarized under the caption "Auction Rate Index" herein.

"Auction Rate Mode Change Date " means the date on which the Auction Rate Securities convert from a Mode other than an Auction Mode and begin to bear interest at an Auction Rate.

"Auction Rate Securities " means the Bonds during any Auction Period.

"Available Bonds" means the aggregate principal amount of the Auction Rate Securities that are not the subject of Submitted Hold Orders.

"Beneficial Owner " of Auction Rate Securities means the customer of a Broker-Dealer for such Auction Rate Securities who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as the holder of such Auction Rate Securities.

"Bid" has the meaning specified in subsection (a) of the provisions summarized under the caption "Orders by Existing and Potential Owners" herein.

"Bidder " means each Existing Owner and Potential Owner who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer as described in this Appendix F that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Corporation and approved by the Bond Insurer, and that is a party to a Broker-Dealer Agreement with the Auction Agent.

"Broker-Dealer Agreement" means an agreement between the Auction Agent and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in this Appendix F, as such agreement may from to time be amended or supplemented. Each Broker-Dealer Agreement shall provide that (A) it may be terminated at the direction of the Bond Insurer, with the prior written consent of the Corporation unless the Corporation is in default with respect to its obligations under the Loan Agreement or the Master Indenture, at any time, (B) the Bond Insurer shall have the right to direct the Auction Agent to enter into a Broker-Dealer Agreement with additional Broker-Dealers without the consent of any other Broker-Dealer, and (C) the Bond Insurer shall be a third party beneficiary of each Broker-Dealer Agreement for purposes of enforcement of these rights.

"Broker-Dealer Rate" means a rate of 0.25% or such different rate as may be established pursuant to a Broker-Dealer Agreement, provided that the Broker-Dealer Rate must be the same in all Broker-Dealer Agreements.

"Existing Owner " means a Person or a Broker-Dealer who is listed as the Beneficial Owner of the Auction Rate Securities in the records of the Auction Agent.

"Hold Order" has the meaning specified in subsection (a) of provisions summarized under the caption "Orders by Existing and Potential Owners" herein.

"Initial Auction Period" means the period from and including, December 20, 2005, through and including, January 4, 2006.

"LIBOR " has the meaning specified in subsection (a) of the provisions summarized under the caption "Auction Rate Index" herein.

"Market Agent" means Merrill, Lynch, Pierce, Fenner & Smith Incorporated or any successor market agent appointed in accordance with the provisions summarized under the caption "Market Agent" herein.

"Order " means a Hold Order, Bid or Sell Order.

"Potential Owner" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in Auction Rate Securities in addition to the Auction Rate Securities at the time owned by such Person, if any.

"Principal Office of the Auction Agent" means the office of the Auction Agent designated in writing to the Authority, the Bond Trustee, the Market Agent, and each Broker-Dealer.

"Securities Depository " means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Bond Trustee which agrees to follow the procedures required to be followed by such securities depository in connection with the Auction Rate Securities.

"Sell Order" has the meaning specified in subsection (a) of provisions summarized under the caption "Orders by Existing and Potential Owners" herein.

"Submission Deadline" means 12:00 noon, Eastern time, on each Auction Date, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

"Submitted Bid" has the meaning specified in the provisions summarized under the caption "Determination of Auction Rate" herein.

"Submitted Hold Order" has the meaning specified in the provisions summarized under the caption "Determination of Auction Rate" herein.

"Submitted Order" has the meaning specified in the provisions summarized under the caption "Determination of Auction Rate" herein.

"Submitted Sell Order" has the meaning specified in the provisions summarized under the caption "Determination of Auction Rate" herein.

"Sufficient Clearing Bids " means an Auction for which the aggregate principal amount of the Auction Rate Securities that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the aggregate principal amount of the Auction Rate Securities that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

"Winning Bid Rate" means the lowest rate in any Submitted Bid which, if selected by the Auction Agent as the Auction Rate, would cause the aggregate principal amount of Auction Rate Securities that are the subject of Submitted Bids specifying rates not greater than such rate to be at least equal to the aggregate principal amount of Available Bonds.

AUCTION PROCEDURES

While the Auction Rate Securities bear interest at the Auction Rate, Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding each Auction Period commencing after the ownership of the Auction Rate Securities is no longer maintained in the book-entry system pursuant to the provisions of the Bond Indenture. If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the manner set forth in this Appendix F.

ORDERS BY EXISTING OWNERS AND POTENTIAL OWNERS

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of the Auction Rate Securities, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of the Auction Rate Securities, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of the Auction Rate Securities, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Auction Rate Securities, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of the Auction Rate Securities, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

An Order containing the information referred to in clause (i)(A) of this subsection (a) is herein referred to as a *"Hold Order,"* an Order containing the information referred to in clause (i)(B) or clause (ii) of this subsection (a) is herein referred to as a *"Bid",* and an Order containing the information referred to in clause (i)(C) of this subsection (a) is herein referred to as a *"Sell Order. "*

(b)(i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the Auction Rate Securities specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the Auction Rate Securities to be determined as set forth in subsection (a)(v) of the provisions summarized under the caption "Allocation of the Auction Rate Securities" herein if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of the Auction Rate Securities to be determined as set forth in subsection (b)(iv) of the provisions summarized under the caption "Allocation of the Auction Rate Securities" herein if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the Auction Rate Securities specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of the Auction Rate Securities as set forth in subsection (b)(iv) of the provisions summarized under the caption "Allocation of the Auction Rate Securities" herein if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of the Auction Rate Securities specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the Auction Rate Securities as set forth in subsection (a)(vi) of the provisions summarized under the caption "Allocation of the Auction Rate Securities" herein if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(C) Anything in the provisions of the Bond Indenture summarized herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies the Auction Rate Securities to be held, purchased or sold in a principal amount which is not $25,000 or an integral multiple thereof shall be rounded down to the nearest $25,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction, any portion of an Order of an Existing Owner which relates to an Auction Rate Security which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction, no portion of an Auction Rate Security which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Bond Trustee or the Authority of the occurrence of an Event of Default resulting from a failure by the Authority to pay principal, premium or interest on any such Bonds when due and a failure of the Bond Insurer to pay when due a claim properly made under the Bond Insurance Policy in respect thereof, but shall resume two Business Days after the date on which the Auction Agent receives notice from the Bond Trustee that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

SUBMISSION OF ORDERS BY BROKER-DEALERS TO AUCTION AGENT

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of the Auction Rate Securities that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of the Auction Rate Securities, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the Auction Rate Securities, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the Auction Rate Securities, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Auction Rate Securities held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of the Auction Rate Securities held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of the Auction Rate Securities held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing

Owner covering the principal amount of the Auction Rate Securities held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of the Outstanding Auction Rate Securities held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of the Auction Rate Securities held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of the Auction Rate Securities held by such Existing Owner over the principal amount of the Auction Rate Securities subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A), all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of the Auction Rate Securities held by such Existing Owner over the principal amount of the Auction Rate Securities held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above,

(C) subject to clause (A), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of the Auction Rate Securities held by such Existing Owner over the principal amount of the Auction Rate Securities held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above, and

(D) the principal amount, if any, of such Auction Rate Securities subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner; and

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of the Auction Rate Securities equal to the excess of the principal amount of the Auction Rate Securities held by such Existing Owner over the sum of the principal amount of the Auction Rate Securities considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of the Auction Rate Securities considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of the Auction Rate Securities specified therein.

(f) The Corporation, the Authority, the Bond Trustee, the Market Agent and the Auction Agent shall not be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

DETERMINATION OF AUCTION RATE

(a) Not later than 8:30 a.m., Eastern time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Bond Trustee by telephone of the All Hold Rate and the Auction Rate Index.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a *"Submitted Hold Order,"* a *"Submitted Bid"* or a *"Submitted Sell Order,"* as the case may be, and collectively as a *"Submitted Order")* and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent shall advise the Bond Trustee and the Corporation by telephone (promptly confirmed in writing), telex or facsimile transmission of the Auction Rate for the next succeeding Auction Period.

(d) In the event the Auction Agent shall fail to calculate, or for any reason shall fail to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 28 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Rate for the new Auction Period shall be the same as the Auction Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 28 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Rate in effect for the preceding Auction Period shall continue in effect for the Auction Period as so extended. In the event the Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended.

(e) In the event of a failed change of Mode to a Unit Pricing Mode, a Daily Mode, a Weekly Mode, an R-FLOATs Mode, a Term Rate Mode, an Indexed Mode, a Stepped Coupon Mode or a Fixed Rate Mode, or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period shall automatically convert to a seven day period commencing on the failed conversion or change date and the interest borne by the Auction Rate Securities during the Auction Period commencing on such failed Mode Change Date shall be the Maximum Rate until the first Auction Date after the proposed conversion or change date.

(f) In the event that the Auction Rate Securities are not rated or if the Auction Rate Securities are no longer held in book-entry form by the Securities Depository, no Auctions will be held and the Auction Rate for the Auction Rate Securities shall be the Maximum Rate.

(g) The Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Bond Trustee or the Corporation of the occurrence of an event of default under the Bond Indenture resulting from a failure by the Authority to pay principal, premium or interest on any Auction Rate Security when due, together with the failure by the Bond Insurer to honor its payment obligations under the Bond Insurance Policy, but shall resume two Business Days after the date on which the Auction Agent receives written notice from the Bond Trustee that such event of default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter. The Auction Rate during this period shall be the Maximum Rate.

ALLOCATION OF THE AUCTION RATE SECURITIES

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Securities that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Auction Rate Securities that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Securities that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Securities that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Securities that are the subject of such Submitted Bid, but only up to and including the principal amount of the Auction Rate Securities obtained by multiplying (A) the aggregate principal amount of the Outstanding Auction Rate Securities which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of the Outstanding Auction Rate Securities held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of the Outstanding Auction Rate Securities subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of the Auction Rate Securities;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Securities that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the Auction Rate Securities obtained by multiplying (A) the aggregate principal amount of the Outstanding Auction Rate Securities which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of the Outstanding Auction Rate Securities subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of the Outstanding Auction Rate Securities subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Securities that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Securities that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Securities that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of the Auction Rate Securities obtained by multiplying (A) the aggregate principal amount of the Auction Rate Securities subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of the Outstanding Auction Rate Securities held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of the Outstanding Auction Rate Securities subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of the Auction Rate Securities; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Auction Rate Securities which is not an integral multiple of $25,000 on any Auction Date, the Auction Agent shall by lot round up or down the principal amount of the Auction Rate Securities to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the Auction Rate Securities purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of $25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any of the Auction Rate Securities on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than $25,000 in principal amount of the Auction Rate Securities on any Auction Date, the Auction Agent shall by lot allocate the Auction Rate Securities for purchase among Potential Owners so that the principal amount of Auction Rate Securities purchased on such Auction Date by any Potential Owner shall be an integral multiple of $25,000, even if such allocation results in one or more of such Potential Owners not purchasing the Auction Rate Securities on such Auction Date.

NOTICE OF AUCTION RATE

(a) On each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of:

(i) the Auction Rate fixed for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of the Auction Rate Securities, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of the Auction Rate Securities, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of the Auction Rate Securities to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of the Auction Rate Securities to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of the Auction Rate Securities to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

(i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted a Bid or Sell Order whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of the Auction Rate Securities to be purchased pursuant to such Bid against receipt of such Auction Rate Securities;

(iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of the Auction Rate Securities to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next succeeding Auction Period;

(v) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order of the Auction Date of the next succeeding Auction; and

(vi) advise each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the Auction Date of the next succeeding Auction.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order shall allocate any funds received by it pursuant to subparagraph (b)(ii) above, and any Auction Rate Securities received by it pursuant to (b)(iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders, and any Broker-Dealer identified to it by the Auction Agent pursuant to subparagraph (a)(v) above.

(d) On the Business Day after the Auction Date, the Securities Depository shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchase and sale of Auction Rate Securities as determined in the Auction.

AUCTION RATE INDEX

(a) The Auction Rate Index on any Auction Date shall be LIBOR.

"LIBOR" means, on any date of determination for an Auction Period, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

(b) If for any reason on any Auction Date, the Auction Rate Index shall not be determined as hereinabove provided in this caption, the Auction Rate Index shall be the Auction Rate Index for the Auction Period ending on such Auction Date.

(c) The determination of the Auction Rate Index as described in this Appendix F shall be conclusive and binding upon the Authority, the Corporation, the Bond Trustee, the Broker-Dealers, the Auction Agent, the Market Agent and the Holders and Beneficial Owners of the Auction Rate Securities.

MISCELLANEOUS PROVISIONS REGARDING AUCTIONS

(a) In this Appendix F, each reference to the purchase, sale or holding of "Auction Rate Securities" shall refer to beneficial interests in the Auction Rate Securities, unless the context clearly requires otherwise.

(b) During an Auction Period, with the prior written consent of the Bond Insurer, the provisions of this Appendix F including, without limitation, the definitions of All-Hold Rate, Maximum Rate, Auction Rate Index, Interest Payment Date and Auction Rate may be amended pursuant to the provisions of the Bond Indenture. If the amendment is pursuant to provisions of the Bond Indenture, on the first Auction Date occurring at least 20 days after the date on which the Bond Trustee mailed notice of such proposed amendment to the Holders of the Outstanding Auction Rate Securities affected by such

amendment, as required by the provisions of the Bond Indenture, (i) Sufficient Clearing Bids have been received or all of the Auction Rate Securities are subject to Submitted Hold Orders, and (ii) there is delivered to the Authority and the Bond Trustee a Favorable Opinion of Bond Counsel with respect to such amendment, the proposed amendment shall be deemed to have been consented to by the Holders of all Outstanding Auction Rate Securities affected by such amendment.

(c) During an Auction Period, so long as the ownership of the Auction Rate Securities is maintained in book-entry form by the Securities Depository, an Existing Owner or a Beneficial Owner may sell, transfer or otherwise dispose of an Auction Rate Security only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of the Auction Rate Securities from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Holder of such Auction Rate Securities to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of the provisions summarized under this caption if such Broker-Dealer remains the Existing Owner of the Auction Rate Securities so sold, transferred or disposed of immediately after such sale, transfer or disposition.

CHANGES IN AUCTION PERIOD OR AUCTION DATE

(a) *Changes in Auction Period*

(i) During any Auction Period, the Corporation may, from time to time subject to the requirements of the Bond Indenture, on any Interest Payment Date, change the length of any Auction Period with respect to the Auction Rate Securities to a period of any integral multiple of 7 days or to a six-month or any integral multiple of six months Auction Period (provided that the length of the first Auction Period after such change in length or a change in Auction Date may be the number of days necessary to result in the immediately following Auction Period having a length which is an integral multiple of seven days or six months, as applicable) in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Auction Rate Securities. The Corporation shall initiate the change in the length of the Auction Period by giving written notice at least 10 Business Days prior to the Auction Date for such Auction Period to the Authority, the Bond Trustee, the Auction Agent, the Market Agent, the Broker-Dealers, the Bond Insurer and the Securities Depository that the Auction Period for the Bonds specified in such notice will change if the conditions described in this caption are satisfied and the proposed effective date of the change. Any notice of a change in the length of an Auction Period shall be accompanied by (A) a written statement from all Broker-Dealers, addressed to the Authority and the Bond Trustee, to the effect that the Broker-Dealers have determined, in their sole judgment, that the change in the length of the Auction Period would result in the lowest aggregate cost, taking into account interest and other determinable fees and expenses, being payable with respect to the Auction Rate Securities over the next twelve months commencing with the date of the change in the length of the Auction Period, or (B) an approval in writing of such change in the length of the Auction Period by a duly authorized officer of the Authority, or (C) a Favorable Opinion of Bond Counsel, to the effect that such approval is not required for the continued validity and enforceability of the Auction Rate Securities in accordance with their terms.

(ii) Except as permitted by the proviso appearing in Subsection (i) immediately above, any such changed Auction Period shall be for a period of any integral multiple of 7 days or for a period of six months or any integral multiple of six months and shall be for all of the

Auction Rate Securities identified in the Corporation's notice referred to in Subsection (i) immediately above.

(iii) The change in the length of the Auction Period shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Auction Rate Securities except to the extent such Existing Owner submits an Order with respect to such Auction Rate Securities. If the condition referred to in the first sentence of this paragraph (iv) is not met, the Auction Rate for the next Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(b) *Changes in Auction Date.* During any Auction Period, the Market Agent, with the written consent of the Corporation and the Bond Insurer, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Auction Rate Securities. The Market Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Bond Trustee, the Corporation, the Authority, the Broker-Dealers, the Auction Agent and the Securities Depository.

(c) *No Auction Rate Mode Change Date.* The date on which a change in the length of an Auction Period or a change in an Auction Date occurs is not an Auction Rate Mode Change Date.

AUCTION AGENT

(a) The initial Auction Agent shall be any auction agent or any successor appointed by the Corporation, with the consent of the Bond Insurer, to perform the functions specified in this Appendix F. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Authority, the Bond Trustee, the Corporation, the Market Agent, the Bond Insurer and each Broker-Dealer which will set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Corporation and the Bond Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in the Auction Rate Securities with the same rights as if such entity were not the Auction Agent.

QUALIFICATIONS OF AUCTION AGENT: RESIGNATION; REMOVAL

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least $30,000,000, or (b) a member of NASD having a capitalization of at least $30,000,000 and, in either case, authorized by law to perform all of the duties imposed upon it by the Bond Indenture and a member

of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Bond Indenture by giving at least 90 days notice to the Authority, the Corporation, the Bond Insurer and the Bond Trustee. The Auction Agent may be removed at any time by the Corporation, with the consent of the Bond Insurer, by written notice, delivered to the Auction Agent, the Market Agent, the Bond Insurer and the Bond Trustee. The Auction Agent may also be removed for cause by the Bond Insurer. Upon any such resignation or removal, the Corporation shall appoint a successor Auction Agent (acceptable to the Bond Insurer) meeting the requirements of the provisions summarized under this caption. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Auction Rate Securities held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Corporation. In the event that the Auction Agent has not been compensated for its services, the Auction Agent (a) may resign by giving 45 days notice to the Authority, the Corporation, the Market Agent, the Bond Insurer and the Bond Trustee even if a successor Auction Agent has not been appointed and (b) shall give written notice of non-payment as soon as practicable to the Bond Insurer.

MARKET AGENT

The Market Agent shall be appointed by the Corporation. The Market Agent, including any successor appointed pursuant to the provisions of the Bond Indenture, shall be a member of the National Association of Securities Dealers, Inc. having capitalization of at least $25,000,000, and be authorized by law to perform all the duties imposed upon it by the Bond Indenture. The Market Agent may be removed at any time at the direction of the Corporation, with the consent of the Bond Insurer, by written notice delivered to the Market Agent, the Auction Agent and the Bond Trustee, provided that such removal shall not take effect until the appointment of a successor Market Agent. The Market Agent may resign upon 30 days' written notice delivered to the Corporation, the Broker-Dealer, the Bond Insurer and the Bond Trustee. The Corporation shall use its best efforts to appoint a successor Market Agent that is a qualified institution, effective as of the effectiveness of any such resignation or removal. Any successor Market Agent must be approved by the Bond Insurer.

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APPENDIX G

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix G concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book entry system has been obtained from DTC and the Authority, the Corporation, the Underwrites and the Trustee take no responsibility for the completeness or accuracy thereof. The Authority, the Corporation, the Underwriter and the Trustee cannot and do not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Series 2007 Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series 2007 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, New York, NY, will act as securities depository for the Series 2007 Bonds. The Series 2007 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 Series 2007 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation, (respectively, "NSCC," "FICC," 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 and www.dtc.org; nothing contained in such websites is incorporated into this Official Statement.

Purchases of Series 2007 Bonds under the Book-Entry System must be made by or through Direct Participants, which will receive a credit for the Series 2007 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2007 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation

from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2007 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 Series 2007 Bonds, except in the event that use of the Book-Entry System for the Series 2007 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2007 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 Series 2007 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2007 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2007 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 Series 2007 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2007 Bonds, such as redemptions, tenders, defaults, and proposed amendments to security documents. For example, Beneficial Owners of the Series 2007 Bonds may wish to ascertain that the nominee holding the Series 2007 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2007 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2007 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2007 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee 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 Series 2007 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 Series 2007 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Authority or the Trustee, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Trustee, or the Authority, 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 Series 2007 Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Authority or the Trustee,

disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2007 Bonds purchased or tendered, through its Participant, to the Trustee, and shall effect delivery of such Series 2007 Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2007 Bonds, on DTC's records, to the Trustee. The requirement for physical delivery of Series 2007 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2007 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2007 Bonds to the Trustee's DTC's account.

DTC may discontinue providing its services as securities depository with respect to Series 2007 Bonds at any time by giving notice to the Authority and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

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

While the Series 2007 Bonds are in the Book-Entry System, reference in this Official Statement to owners of such Series 2007 Bonds should be read to include any person for whom a Participant acquires an interest in the Series 2007 Bonds, but (i) all rights of ownership, as described herein, must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to registered owners by the Trustee will be given only to DTC. DTC is required to forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

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