

In the opinion of Jones Day, San Francisco, California, Bond Counsel to Episcopal Senior Communities, assuming compliance with certain covenants, under present law, interest on the Series 2011 Bonds will not be includible in gross income of the owners thereof for federal income tax purposes and will not be treated as an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations. Interest on the Series 2011 Bonds will be taken into account, however, an adjustment used in computing a corporation's alternative minimum taxable income for purposes of determining the federal alternate minimum tax imposed on certain corporations. Interest accruing on the Series 2011 Bonds will be exempt from the Personal Income Tax Law imposed by the State of California under Sections 17001 through 19802 of the California Revenue and Taxation Code. See "TAX MATTERS" herein for a more detailed discussion of some of the federal income tax consequences of owning the Series 2011 Bonds, and certain tax laws of the State of California.

\$62,200,000

E P I S C O P A L
SENIOR COMMUNITIES

**ABAG Finance Authority for Nonprofit Corporations
Revenue Refunding Bonds, Series 2011
(Episcopal Senior Communities)**

Dated: Date of Delivery

Due: July 1, as shown below

The ABAG Finance Authority for Nonprofit Corporations (including its successors and assigns, the "Authority") is issuing its \$62,200,000 aggregate principal amount of Revenue Refunding Bonds, Series 2011 (Episcopal Senior Communities) (the "Series 2011 Bonds") pursuant to a Bond Trust Indenture dated as of October 1, 2011 (the "Bond Indenture"), between the Authority and U.S. Bank National Association, as bond trustee (the "Bond Trustee"). The proceeds of the Series 2011 Bonds will be loaned to Episcopal Senior Communities (the "Corporation") to (1) refinance certain outstanding Certificates of Participation described more fully herein; (2) finance or reimburse certain capital improvements at continuing care retirement communities of the Corporation in California; and (3) pay certain costs associated with the issuance of the Series 2011 Bonds and the repayment of the aforementioned Certificates of Participation. A more detailed description of the use of the proceeds from the sale of the Series 2011 Bonds is included under the captions "ESTIMATED SOURCES AND USES OF FUNDS" and "PLAN OF FINANCE" herein. Except as described in this Official Statement, the Series 2011 Bonds will be payable solely from and secured by a pledge of payments to be made under the Loan Agreement dated as of October 1, 2011 (the "Loan Agreement"), between the Authority and the Corporation and the Corporation's Direct Note Obligation No. 3 (the "Series 2011 Obligation") issued by the Corporation under a Master Trust Indenture (the "Master Indenture") dated as of October 1, 2011 between the Corporation, any future Member of the Obligated Group and U.S. Bank National Association, as master trustee (the "Master Trustee"). The Series 2011 Bonds are payable by the Bond Trustee out of the payments to be made by the Corporation under the Loan Agreement and from certain funds held under the Bond Indenture. The sources of payment of, and security for, the Series 2011 Bonds are more fully described in this Official Statement.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS AND CUSIP NUMBERS

MATURING JULY 1	PRINCIPAL AMOUNT	INTEREST RATE	YIELD	CUSIP[†]
2012	\$610,000	3.00%	2.75%	00037CRN2
2013	920,000	4.00	3.10	00037CRP7
2014	960,000	4.00	3.25	00037CRQ5
2015	995,000	5.00	3.53	00037CRR3
2016	1,045,000	5.00	3.90	00037CRS1
\$7,520,000 5.250% Term Bonds due July 1, 2022, to yield 5.450%, CUSIP: 00037CRT9				
\$3,070,000 5.375% Term Bonds due July 1, 2024, to yield 5.650%, CUSIP: 00037CRX0				
\$3,420,000 6.125% Term Bonds due July 1, 2026, to yield 5.800%*, CUSIP: 00037CRU6				
\$10,530,000 6.000% Term Bonds due July 1, 2031, to yield 6.140%, CUSIP: 00037CRV4				
\$33,130,000 6.125% Term Bonds due July 1, 2041, to yield 6.300%, CUSIP: 00037CRW2				

When issued, the Series 2011 Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series 2011 Bonds. Purchases will be made only in book-entry form through the Participants (as herein defined) in DTC, and no physical delivery of the Series 2011 Bonds will be made to Beneficial Owners (as herein defined) except as described herein. So long as Cede & Co. is the registered owner of the Series 2011 Bonds, as nominee of DTC, references herein to the Bondholders, Holders or registered owners of the Series 2011 Bonds shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners of the Series 2011 Bonds. See "BOOK-ENTRY SYSTEM" herein.

The principal of, premium, if any, and interest on the Series 2011 Bonds will be paid by the Bond Trustee, to Cede & Co., as long as Cede & Co. is the registered owner of the Series 2011 Bonds. Disbursements of such payments to the Direct Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of Direct Participants and Indirect Participants as more fully described herein.

An investment in the Series 2011 Bonds involves a certain degree of risk related to the nature of the business of the Corporation, the regulatory environment, and the provisions of the principal documents. A prospective holder of the Series 2011 Bonds is advised to read "SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2011 BONDS" and "RISK FACTORS" herein for a description of the security for the Series 2011 Bonds and for a discussion of certain risk factors which should be considered in connection with an investment in the Series 2011 Bonds. See "RISK FACTORS" herein.

The Series 2011 Bonds are subject to optional, mandatory and extraordinary redemption prior to maturity as described herein under "THE SERIES 2011 BONDS - Redemption Provisions" herein.

THE SERIES 2011 BONDS AND THE INTEREST THEREON ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE BOND INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG"), OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY, INDIRECTLY, 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 2011 BONDS. THE SERIES 2011 BONDS AND THE OBLIGATION TO PAY PRINCIPAL THEREOF, OR PREMIUM, IF ANY, AND INTEREST THEREON DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY, 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 TRUST ESTATE AS PROVIDED IN THE BOND INDENTURE. NO OWNER OF THE SERIES 2011 BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2011 BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

The Series 2011 Bonds are offered when, as and if issued and received by the Underwriter, subject to prior sale, to withdrawal or modification of the offer without any notice, and to the approval of legality of the Series 2011 Bonds by Jones Day, San Francisco, California, Bond Counsel to the Corporation. Certain legal matters will be passed upon for the Corporation by their financing counsel, by Jones Day, San Francisco, California; for the Underwriter by its counsel, Katten Muchin Rosenman LLP, Los Angeles, California and Chicago, Illinois and for the Authority by its special counsel, Sidley Austin LLP, San Francisco, California. It is expected that the Series 2011 Bonds in definitive form will be available for delivery to DTC in New York, New York, on or about October 27, 2011.

This cover page contains certain information for ease of reference only. It does not constitute a summary of the Series 2011 Bonds or the security therefor. Potential investors must read this entire Official Statement, including the Appendices, to obtain information essential to the making of an informed investment decision.



The date of this Official Statement is October 6, 2011

* Yield calculated to first call

† Copyright, American Bankers Association, CUSIP data herein are provided by Standard & Poor's CUSIP Service Bureau, a division of the McGraw Hill Companies, Inc. The CUSIP numbers are provided for convenience and reference only.

E P I S C O P A L
— ◆ ◆ ◆ ◆ —
SENIOR COMMUNITIES





Canterbury Woods

Your place nestled on the coast.





Los Gatos Meadows

Living well.





San Francisco Towers

The life you want, in the city you love.





Spring Lake Village

Your life, better.





St. Paul's Towers

Making you feel right, at home.



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REGARDING USE OF THIS OFFICIAL STATEMENT

The information contained herein under the headings “**THE AUTHORITY**” and “**LITIGATION – Authority**” has been furnished by the ABAG Finance Authority for Nonprofit Corporations (the “Authority”). The information under the heading “**BOOK-ENTRY SYSTEM**” has been obtained from The Depository Trust Company. All other information contained herein has been obtained from Episcopal Senior Communities (the “Corporation”) and other sources (other than the Authority) which are believed to be reliable. Such other information is not guaranteed as to accuracy or completeness by, and is not to be relied upon as or construed as a promise or representation by, the Authority or B.C. Ziegler and Company (the “Underwriter”). The Underwriter has provided the following sentence for inclusion in the 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.

No dealer, broker, salesperson or other person has been authorized by the Authority, the Corporation, its affiliated organizations, or the Underwriter to give any information or to make any representations other than those contained in this Official Statement and, if given or made, such information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement shall not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be a sale of Series 2011 Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. 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, the Corporation or its affiliated organizations since the date hereof.

The Authority does not assume any responsibility for the accuracy or completeness of any information contained in this Official Statement, except such information relating specifically to the Authority under the captions, “**THE AUTHORITY**” and “**LITIGATION – Authority.**”

In making an investment decision, investors must rely upon their own examination of the terms of the offering, including the merits and risks involved.

IN CONNECTION WITH THE OFFERING OF THE SERIES 2011 BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES 2011 BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 2011 BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 NOR HAS THE BOND INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACTS. THE REGISTRATION OR QUALIFICATION OF THE SERIES 2011 BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE SERIES 2011 BONDS HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS RECOMMENDATIONS THEREOF. NEITHER THESE STATES NOR ANY OF THEIR AGENCIES HAS PASSED UPON THE MERITS OF THE SERIES 2011 BONDS OR THE ACCURACY OR COMPLETENESS OF THE OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

**CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS
IN THIS OFFICIAL STATEMENT**

Certain statements included or incorporated by reference 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.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVES KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CORPORATION DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS.

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OFFICIAL STATEMENT

relating to

\$62,200,000

**ABAG Finance Authority for Nonprofit Corporations
Revenue Refunding Bonds, Series 2011
(Episcopal Senior Communities)**

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. The following descriptions and summaries of the Series 2011 Bonds, the Bond Indenture, the Loan Agreement, the Continuing Disclosure Agreement, the Series 2011 Obligation, the Deeds of Trust and the Master Indenture 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 Bond Trustee. The Official Statement speaks only as of its date, and the information contained herein is subject to change.

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 of \$62,200,000 in aggregate principal amount of Revenue Refunding Bonds, Series 2011 (Episcopal Senior Communities) (the “Series 2011 Bonds”) of the ABAG Finance Authority for Nonprofit Corporations (including its successors and assigns, the “Authority”).

The Series 2011 Bonds. The Series 2011 Bonds will be issued pursuant to the provisions of a Bond Trust Indenture dated as of October 1, 2011 (the “Bond Indenture”) between the Authority and U.S. Bank National Association, as bond trustee (the “Bond Trustee”). The Authority will loan the proceeds of the Series 2011 Bonds to Episcopal Senior Communities (the “Corporation”), a California nonprofit public benefit corporation, pursuant to the provisions of a Loan Agreement dated as of October 1, 2011 (the “Loan Agreement”) between the Authority and the Corporation.

Purpose of the Series 2011 Bonds. The proceeds of the Series 2011 Bonds will be loaned to the Corporation to (1) refinance the outstanding Refunding Revenue Certificates of Participation (Episcopal Homes Foundation), Series 1998 (the “Series 1998 COPs”) of the Authority; (2) finance or reimburse certain capital improvements at continuing care retirement communities of the Corporation in California; and (3) pay certain costs associated with the issuance of the Series 2011 Bonds and the repayment of the Series 1998 COPs. A more detailed description of the use of the proceeds from the sale of the Series 2011 Bonds is included under the captions “**ESTIMATED SOURCES AND USES OF FUNDS**” and “**PLAN OF FINANCE**” herein.

The Obligated Group. John Tennant Memorial Homes (“JTMH”) was founded in 1963 and opened Canterbury Woods retirement Community in Pacific Grove, California on land originally donated to the Episcopal Diocese of California by Margaret Tennant for the purpose of housing retired Episcopal clergy. The community was subsequently transferred to the Corporation, formerly Episcopal Homes Foundation, when the Corporation was formed in 1965. The Corporation directly owns and operates five continuing care retirement communities (“CCRCs”) and operates and provides management

services to two subsidiary low income senior housing corporations. The Corporation has received a determination letter from the Internal Revenue Service (the "IRS") that it is exempt from federal income tax under Section 501(a) of the Internal Revenue Code of 1986 (the "Code") as an organization described in Section 501(c)(3) of the Code. The Corporation's home office is in Walnut Creek, California. Initially, the Corporation is the sole member of the Obligated Group.

See **APPENDICES A** and **B** for additional information about the Corporation and other affiliates of the Corporation. The financial and statistical information in **APPENDIX A** is with respect to the operations of the Obligated Group. The consolidated audited financial statements of the Corporation and its affiliates are attached hereto as **APPENDIX B**.

ONLY THE CORPORATION AND ANY FUTURE MEMBERS OF THE OBLIGATED GROUP ARE OBLIGATED UNDER THE SERIES 2011 OBLIGATION, THE LOAN AGREEMENT AND WITH RESPECT TO THE SERIES 2011 BONDS. NO OTHER AFFILIATES OF THE CORPORATION ARE OBLIGATED UNDER THE HEREINAFTER DESCRIBED SERIES 2011 OBLIGATION, THE LOAN AGREEMENT OR WITH RESPECT TO THE SERIES 2011 BONDS.

Security for the Series 2011 Bonds. The Series 2011 Bonds will be payable from payments made by the Corporation under the Loan Agreement, from payments made by the Obligated Group on the Series 2011 Obligation (described below) and from certain funds held under the Bond Indenture.

The Series 2011 Bonds will be limited obligations of the Authority and will be secured by the Corporation's Direct Note Obligation No. 3 (the "Series 2011 Obligation") issued by the Corporation under the Master Trust Indenture, dated as of October 1, 2011 (the "Master Indenture") between the Corporation, any future Member of the Obligated Group (the "Obligated Group") and U.S. Bank National Association, as master trustee (the "Master Trustee"). Pursuant to the Series 2011 Obligation, the Corporation agrees to make payments on the Series 2011 Obligation in an amount sufficient to pay, when due, the amounts required to be paid by the Corporation and, thus, the principal of, premium, if any, and interest on the Series 2011 Bonds.

The Authority will pledge and assign the Series 2011 Obligation and certain of its rights under the Loan Agreement (other than Unassigned Rights) to the Bond Trustee as security for the Series 2011 Bonds. The Series 2011 Obligation will entitle the Bond Trustee, as the holder thereof, to the protection of the covenants, restrictions and other obligations imposed by the Master Indenture upon the Corporation and any other Person which may become a Member of the Obligated Group in the future.

In February 2000, the Authority issued \$33,250,000 of its Variable Rate Certificates of Participation, (Episcopal Homes Foundation) Series 2000 (the "Series 2000 COPs") which are currently outstanding in the aggregate principal amount of \$22,540,000. Upon the issuance of the Series 2011 Bonds, the trustee for the Series 2000 COPs (the "2000 Bond Trustee") will release the security currently securing those certificates and accept from the Corporation the Direct Note Obligation No. 1 in the amount of \$22,540,000 (the "Series 2000 Obligation"). At the same time, Wells Fargo Bank, N.A., which issued the letter of credit securing the Series 2000 COPs (the "2000 LOC Bank") will receive the Direct Note Obligation No. 2 (the "Bank Obligation" and together with the Series 2000 Obligation, the "Series 2000 Obligations"). The Series 2000 Obligations will be issued under the Master Indenture and secured on a *pari passu* basis with the Series 2011 Obligation.

When issued, the Series 2011 Obligation, the Series 2000 Obligations and all other Obligations subsequently issued under the Master Indenture will be secured by (i) a security interest in the Gross Revenues of the Obligated Group and (ii) a mortgage and security interest in the real and personal

property of each of the Corporation's Facilities, as described in five deeds of trust, each titled Deed of Trust, Security Agreement and Fixture Filing with Assignment of Rents and Leases and each dated as of October 1, 2011, as amended and supplemented (individually, a "Deed of Trust" and collectively, the "Deeds of Trust"), from the Corporation, as trustor, to Chicago Title Insurance Company, as deed trustee, for the benefit of the Master Trustee. See "**SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2011 BONDS – Security Interest in Gross Revenue and the Deeds of Trust**" and **APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Pledge of Gross Revenues."**

The obligations of the Corporation and any other future Members of the Obligated Group to make payments on the Series 2011 Obligation are full and unlimited, joint and several obligations of the Corporation and such other Members of the Obligated Group. The Gross Revenues of the Members of the Obligated Group are pledged under the Master Indenture to secure all the Obligations issued thereunder. See **APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Pledge of Gross Revenues."** Notwithstanding such security interest in the Obligated Group's Gross Revenues and the Deeds of Trust, the Members of the Obligated Group may sell or otherwise transfer Gross Revenues and create Permitted Encumbrances thereon, in accordance with the provisions of the Master Indenture. See "**RISK FACTORS – Certain Matters Relating to Enforceability**" and "**– Certain Risks Associated with the Deeds of Trust**" herein and "**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Encumbrances**" in **APPENDIX C**.

Payment of the principal of, and interest on, the Series 2011 Bonds will be additionally secured by moneys deposited to the credit of a debt service reserve fund established under the Master Indenture.

Certain Covenants under the Master Indenture. Rate Covenant. The Obligated Group covenants in the Master Indenture that the Obligated Group Representative shall compute Income Available for Debt Service and Annual Debt Service and promptly furnish to the Master Trustee an Officer's Certificate setting forth the results of such computation. If the Long-Term Debt Service Coverage Ratio of the Obligated Group is less than 1.20:1, the Master Trustee shall require the Obligated Group to retain an Independent Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and the Obligated Group's methods of operation and other factors affecting its financial condition in order to increase such Long-Term Debt Service Coverage Ratio to at least 1.20:1 for the following Fiscal Year.

See "**CERTAIN COVENANTS OF THE OBLIGATED GROUP UNDER THE MASTER INDENTURE – Rate Covenant**" herein and **APPENDIX C – "SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Rates and Charges; Debt Coverage"** hereto for more detail (including the requirement to retain a Consultant if the Obligated Group fails to meet this test).

Liquidity Covenant. The Obligated Group covenants in the Master Indenture that it will calculate the Days Cash on Hand of the Obligated Group as of March 31 and September 30 of each Fiscal Year (each such date being a "Testing Date"). The Obligated Group shall deliver an Officer's Certificate setting forth such calculation as of March 31 to the Master Trustee not later than May 15, and setting forth such calculation as of September 30 to the Master Trustee not later than November 15 of each year.

The Master Indenture requires that the Obligated Group Members conduct their business so that on each Testing Date the Obligated Group shall maintain no less than 125 Days Cash on Hand (the

“Liquidity Requirement”). If the amount of Days Cash on Hand as of any Testing Date is less than the Liquidity Requirement, the Obligated Group Representative shall, within 30 days after receipt of the Officer’s Certificate disclosing such deficiency, deliver an Officer’s Certificate approved by a resolution of the Governing Body of the Obligated Group Representative to the Master Trustee setting forth in reasonable detail the reasons for such deficiency and adopting a specific plan setting forth steps to be taken designed to achieve the required level of Days Cash on Hand for future periods.

See “**CERTAIN COVENANTS OF THE OBLIGATED GROUP UNDER THE MASTER INDENTURE – Liquidity Covenant**” herein and **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Liquidity Covenant**” (including the requirement to deliver an Officer’s Certificate or to retain a Consultant if the Obligated Group fails to satisfy the Liquidity Requirement).

Approval of Consultants. Pursuant to the Master Indenture, the owners of outstanding Obligations have certain approval rights as to Independent Consultants selected by the Obligated Group Representative. See “**CERTAIN COVENANTS OF THE OBLIGATED GROUP UNDER THE MASTER INDENTURE – Approval of Consultants,**” and **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Approval of Consultants.”**

Other Covenants. See **APPENDIX C** for a description of the terms of the Master Indenture, including certain restrictions imposed on the Obligated Group’s actions for the benefit of all Bondholders of Obligations issued under the Master Indenture. Such terms include, among others, restrictions on Liens on Property (see “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Encumbrances**” in **APPENDIX C**) and provisions governing the transfer of Property (see “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Sale, Lease or Other Disposition of Property**” in **APPENDIX C**), which is defined not to include Excluded Property, which Excluded Property consists of assets of employee pension benefit plans, moneys and securities held as an entrance fee or security deposit, or in a resident trust fund, for any resident of any Facility of a Member, any real estate parcels the Corporation may hold temporarily as a convenience to its Affiliates, and any specific real estate added as Excluded Property from time to time in accordance with the terms of the Master Indenture, and all improvements, fixtures, tangible personal property and equipment located thereon and used in connection therewith. Currently, the Excluded Property does not include any of the material revenue producing facilities of the Corporation, and the estimated combined net book value of the Excluded Property as of the date hereof is less than approximately \$5,000,000.

Continuing Disclosure. The Corporation will enter into an undertaking for the benefit of the Bondholders of the Series 2011 Bonds to provide certain information and to provide notice of certain events to the Municipal Securities Rulemaking Board on its Electronic Municipal Market Access system. For further information, see “**CONTINUING DISCLOSURE**” herein. The Authority has not made and will not make any provision to provide any annual financial statements or other credit information of the Authority or the Corporation to investors on a periodic basis.

Existing and Additional Indebtedness. The Series 1998 COPs are currently outstanding in the aggregate principal amount of \$54,415,000, and will be refunded with the proceeds of the Series 2011 Bonds. The Series 2000 COPs are currently outstanding in the amount of \$22,540,000 and will remain outstanding after the issuance of the Series 2011 Bonds. In certain circumstances, the Corporation and other Members of the Obligated Group may incur Additional Indebtedness (including Guaranties) which may, but need not, be evidenced or secured by Additional Obligations issued under the

Master Indenture. See “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Additional Indebtedness**” in **APPENDIX C**. Additional Obligations issued under the Master Indenture may be issued to the Authority or to other Persons. Additional Obligations will not be pledged under the Bond Indenture but will be equally and ratably secured (except as described herein) under the Master Indenture with each Obligation, including Series 2011 Obligation, issued and from time to time outstanding under the Master Indenture. Additional Indebtedness may be entitled to the benefit of security, including Liens on Property of the Corporation and other Members of the Obligated Group, letters or lines of credit or insurance. Such security need not be extended to any other Indebtedness (including the Series 2011 Obligation). See “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Encumbrances**” in **APPENDIX C**. The Master Indenture provides for Supplemental Master Indentures which may authorize one or more series of Obligations entitled to additional security and included for purposes of calculating Obligation holder consent to amendments to the Master Indenture, including the provisions thereof relating to the exercise of remedies upon the occurrence of an event of default, as are necessary to provide for such security and to permit realization upon such security solely for the benefit of the Obligations entitled thereto.

Risk Factors. There are risks associated with the purchase of the Series 2011 Bonds. See the information under the caption “**RISK FACTORS**” for a discussion of some of these risks.

THE AUTHORITY

The Authority is a joint powers agency duly organized and existing under the laws of the State of California. The Authority was formed pursuant to the provisions relating to the joint exercise of powers contained in Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the California Government Code and a Joint Powers Agreement, dated as of April 1, 1990, 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 members of the Authority with purposes serving the public interest.

THE SERIES 2011 BONDS AND THE INTEREST THEREON ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE BOND INDENTURE. NONE OF THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS (“ABAG”), OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY, INDIRECTLY, 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 2011 BONDS. THE SERIES 2011 BONDS AND THE OBLIGATION TO PAY PRINCIPAL THEREOF, OR PREMIUM, IF ANY, AND INTEREST THEREON DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY, 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 TRUST ESTATE AS PROVIDED IN THE BOND INDENTURE. NO OWNER OF THE SERIES 2011 BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, OR PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2011 BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

THE SERIES 2011 BONDS

General

Certain capitalized terms used herein which are taken from the Bond Indenture have the meanings set forth in **APPENDIX C**.

The Series 2011 Bonds

The Series 2011 Bonds will be issued only in fully registered form in denominations of \$5,000 or any integral multiple of \$5,000 in excess thereof. The Series 2011 Bonds will bear interest (based on a 360-day year of twelve 30-day months) at the respective rates per annum and will mature, subject to earlier redemption, in the amounts and on the dates set forth on the cover page of this Official Statement. The Series 2011 Bonds will bear interest from their dated date, payable on January 1 and July 1 (the "Interest Payment Dates") of each year, commencing January 1, 2012. The Series 2011 Bonds, as initially issued, will be dated the date of issuance thereof as set forth on the cover page of this Official Statement. Except as described in the next sentence, subsequently issued Series 2011 Bonds will be dated as of the later of the date of issuance or the most recent preceding Interest Payment Date to which interest has been paid thereon. Series 2011 Bonds issued on a Interest Payment Date to which interest has been paid will be dated as of such date.

When the Series 2011 Bonds are issued, The Depository Trust Company ("DTC") will act as securities depository. Thereafter, the Series 2011 Bonds will be registered in the book-entry only system (the "Book-Entry System") maintained by DTC. See "**BOOK-ENTRY SYSTEM**" herein. Payment of principal, premium, if any, and interest on the Series 2011 Bonds will be made to beneficial owners by DTC as described under "**BOOK-ENTRY SYSTEM**" herein. If the Book-Entry System is discontinued, the provisions of the following two paragraphs would be applicable.

The principal of, and premium, if any, on the Series 2011 Bonds will be payable at the designated corporate trust office of the Bond Trustee upon presentation and surrender of such Series 2011 Bonds. Interest payments on Series 2011 Bonds (other than with respect to Defaulted Interest) will be payable on each Interest Payment Date to the registered owner thereof appearing on the registration books of the Authority kept by the Bond Trustee to evidence the registration and transfer of the Series 2011 Bonds (the "Bond Register") as of the close of business of the Bond Trustee on the Record Date. "Record Date" means the 15th day (whether or not a Business Day) of the calendar month prior to each Interest Payment Date.

Interest on the Series 2011 Bonds shall, except as hereinafter provided, be paid by check or draft of the Bond Trustee mailed on the Interest Payment Date to such registered owner at the address of such owner as it appears on the Bond Register or at such other address furnished in writing by such registered owner to the Bond Trustee, or by wire transfer sent on the Interest Payment Date to the registered owner upon written notice to the Bond Trustee from the registered owner containing the wire transfer address (which shall be in the continental United States) to which the registered owner wishes to have such wire directed which written notice is received not later than the Business Day prior to the Interest Payment Date, it being understood that such notice may refer to multiple interest payments.

In the event of a default in the payment of interest due on a Interest Payment Date, such defaulted interest shall be payable to the person in whose name such Series 2011 Bond is registered at the close of business on a special record date for the payment of such defaulted interest, which date shall be established by the Bond Trustee not more than 15 nor less than 10 days prior to the date of the proposed

payment and not less than 10 days after receipt by the Bond Trustee of the notice of the proposed payment from the Corporation.

Redemption Provisions

Optional Redemption of the Series 2011 Bonds. The Series 2011 Bonds are callable for redemption prior to maturity in whole or in part at any time on or after July 1, 2021, by the Authority upon direction of the Corporation, out of amounts prepaid on the Series 2011 Obligation and deposited in the Optional Redemption Fund, in whole or in part at any time, and if in part by maturities or portions thereof designated by the Corporation (and if less than all of a single maturity is being redeemed, in such random manner as the Bond Trustee shall deem appropriate). The redemption price for any such redemption shall be equal to 100% of the principal amount of the Series 2011 Bonds to be redeemed on the redemption date, plus accrued interest thereon to the redemption date without premium.

Mandatory Sinking Fund Redemption of Series 2011 Bonds. The Authority shall pay or redeem Series 2011 Bonds from moneys on deposit in the Bond Sinking Fund, at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date, in the amounts and at the times, as follows:

Series 2011 Bonds Maturing July 1, 2022

Redemption Date (July 1)	Principal Amount
2017	\$1,100,000
2018	1,155,000
2019	1,215,000
2020	1,280,000
2021	1,350,000
2022 [†]	1,420,000

[†]Scheduled Maturity

Series 2011 Bonds Maturing July 1, 2024

Redemption Date (July 1)	Principal Amount
2023	\$1,495,000
2024 [†]	1,575,000

[†]Scheduled Maturity

Series 2011 Bonds Maturing July 1, 2026

Redemption Date (July 1)	Principal Amount
2025	\$1,660,000
2026 [†]	1,760,000

[†]Scheduled Maturity

Series 2011 Bonds Maturing July 1, 2031

Redemption Date (July 1)	Principal Amount
2027	\$1,865,000
2028	1,980,000
2029	2,100,000
2030	2,225,000
2031 [†]	2,360,000

[†]Scheduled Maturity

Series 2011 Bonds Maturing July 1, 2041

Redemption Date (July 1)	Principal Amount
2032	\$2,500,000
2033	2,650,000
2034	2,815,000
2035	2,985,000
2036	3,170,000
2037	3,365,000
2038	3,570,000
2039	3,790,000
2040	4,020,000
2041 [†]	4,265,000

[†]Scheduled Maturity

These shall be reduced (a) by the amount of Series 2011 Bonds acquired and delivered in accordance with the Bond Indenture in satisfaction of such Bond Sinking Fund requirements, and (b) in connection with a partial redemption of the Series 2011 Bonds if the Corporation elects to reduce mandatory Bond Sinking Fund redemptions in the manner provided in the Bond Indenture.

In lieu of such mandatory Bond Sinking Fund redemption, the Bond Trustee may, at the request of the Corporation, purchase an equal principal amount of Series 2011 Bonds in the open market at prices not exceeding the principal amount of the Series 2011 Bonds being purchased plus accrued interest. In addition, the amount of Series 2011 Bonds to be redeemed on any date pursuant to the mandatory Bond Sinking Fund redemption schedule shall be reduced by the principal amount of Series 2011 Bonds assigned to such mandatory Bond Sinking Fund redemption date or to the period during which such Bond Sinking Fund redemption date occurs which are acquired by the Corporation and delivered to the Bond Trustee for cancellation.

Extraordinary Optional Redemption. The Series 2011 Bonds are callable for redemption prior to Maturity in the event of damage to or destruction of the Facilities of the Corporation or any part thereof or condemnation or sale under threat of condemnation of such Facilities or any part thereof, to the extent of the proceeds of insurance or condemnation received in connection therewith exceed the greater of \$1,000,000 or 3% of the Obligated Group's assets and are applied to make prepayments on the Series 2011 Obligation pursuant to the Bond Indenture. If called for redemption, as provided in this paragraph, Series 2011 Bonds will be subject to redemption by the Authority at any time, in whole or in part, and, if in part by random method as selected by the Bond Trustee, at the principal amount thereof plus accrued interest to the redemption date and without premium.

General Redemption Provisions. No redemption of less than all of the Series 2011 Bonds at the time outstanding will be made unless the aggregate principal amount of such Series 2011 Bonds to be redeemed is equal to an Authorized Denomination of \$5,000 or more, and the aggregate principal amount of Series 2011 Bonds outstanding after the redemption is an Authorized Denomination.

In lieu of redeeming Series 2011 Bonds, the Bond Trustee may, at the request of the Corporation, use such funds otherwise available for redemption to purchase Series 2011 Bonds in the open market at a price not exceeding the redemption price then applicable under the Bond Indenture, such Series 2011 Bonds to be delivered to the Bond Trustee for the purpose of cancellation. It is understood that in the case of any such redemption or purchase of Series 2011 Bonds, the Authority shall receive credit against its required Bond Sinking Fund deposits in the same manner as would be applicable if such Series 2011 Bonds were optionally redeemed.

Notice of Redemption. Except as provided below, a copy of the notice of the call for any such redemption identifying the Series 2011 Bonds to be redeemed shall be given by electronic means and by first class mail, postage prepaid, to the registered owners of the Series 2011 Bonds to be redeemed at their addresses as shown on the Bond Register not less than 30 days nor more than 60 days prior to the redemption date. Such notice shall specify the redemption date, the redemption price, the place and manner of payment and that from the redemption date interest will cease to accrue on the Series 2011 Bonds which are the subject of such notice and shall include such other information as the Bond Trustee shall deem appropriate or necessary at the time such notice is given to comply with any applicable law, regulation or industry standard.

If any Series 2011 Bonds are to be redeemed pursuant to an extraordinary or optional redemption described above, the notice of redemption may specify that the redemption is contingent on the deposit of moneys with the Bond Trustee in an amount sufficient to pay the redemption price of the Series 2011 Bonds being redeemed on that date.

Failure to give notice in the manner prescribed with respect to any Series 2011 Bond, or any defect in such notice, shall not affect the validity of the proceedings for redemption for any Series 2011 Bond with respect to which notice was properly given. Upon the happening of the conditions described above, the Series 2011 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 2011 Bond is transferred or exchanged on the Bond Register by the Bond Registrar after notice has been given of an optional or mandatory redemption of such Series 2011 Bond, the Bond Registrar will attach a copy of such notice to the Series 2011 Bond issued in connection with such transfer.

BOOK-ENTRY SYSTEM

The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Series 2011 Bonds. The Series 2011 Bonds will be issued as fully-registered Bonds 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. The ownership of one fully-registered Series 2011 Bond for each maturity, each in the aggregate principal amount of such maturity, will be registered in the name of Cede & Co.

DTC, the world’s largest depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 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 (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 been rated “AA+” by Standard & Poor’s. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of the Series 2011 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2011 Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series 2011 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, but Beneficial Owners are 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 2011 Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will

not receive certificates representing their ownership interests in the Series 2011 Bonds, except in the event that use of the book-entry system for the Series 2011 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2011 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 2011 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2011 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2011 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 and regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2011 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2011 Bonds, such as redemptions, tenders, defaults, and proposed amendments to bond documents. For example, Beneficial Owners of Series 2011 Bonds may wish to ascertain that the nominee holding the Series 2011 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them. Redemption notices shall be sent to DTC. If less than all of the Series 2011 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series 2011 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an "Omnibus Proxy" to the Authority as soon as possible after the Record Date. The "Omnibus Proxy" assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2011 Bonds are credited on the Record Date (identified in a listing attached to the "Omnibus Proxy").

Principal and interest payments on the Series 2011 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 Bond Trustee or the Authority, 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 in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Bond Trustee or the Authority. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series 2011 Bonds at any time by giving reasonable notice to the Authority and the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 2011 Bond certificates are required to be printed and delivered.

THE INFORMATION PROVIDED ABOVE HAS BEEN PROVIDED BY DTC. NO REPRESENTATION IS MADE BY THE AUTHORITY, THE CORPORATION OR THE UNDERWRITER AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION PROVIDED BY DTC OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

For so long as the Series 2011 Bonds are registered in the name of DTC or its nominee, Cede & Co., the Authority and the Bond Trustee will recognize only DTC or its nominee, Cede & Co., as the registered owner of the Series 2011 Bonds for all purposes, including payments, notices and voting.

Under the Bond Indenture, payments made by the Bond Trustee to DTC or its nominee will satisfy the Authority's obligations under the Bond Indenture and the Corporation's obligations under the Loan Agreement and on the Series 2011 Obligation, to the extent of the payments so made.

None of the Authority, the Underwriter, the Corporation nor the Bond Trustee will have any responsibility or obligation with respect to (i) the accuracy of the records of DTC, its nominee or any Direct Participant or Indirect Participant with respect to any beneficial ownership interest in any Series 2011 Bond, (ii) the delivery to any Direct Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any notice with respect to any Series 2011 Bond including, without limitation, any notice of redemption, tender, purchase or any event which would or could give rise to a tender or purchase right or option with respect to any Series 2011 Bond, (iii) the payment of any Direct Participant or Indirect Participant or any other Person, other than an owner, as shown in the Bond Register, of any amount with respect to the principal of, premium, if any, or interest on, or the purchase price of, any Series 2011 Bond or (iv) any consent given by DTC as registered owner.

Prior to any discontinuation of the book-entry only system described above, the Authority and the Bond Trustee may treat DTC as, and deem DTC to be, the absolute owner of the Series 2011 Bonds for all purposes whatsoever, including, without limitation, (i) the payment of principal of, premium, if any, and interest on the Series 2011 Bonds, (ii) giving notices of redemption and other matters with respect to the Series 2011 Bonds, (iii) registering transfers with respect to the Series 2011 Bonds and (iv) the selection of Series 2011 Bonds for redemption.

SECURITY AND SOURCE OF PAYMENT FOR THE SERIES 2011 BONDS

General

The Series 2011 Bonds are limited obligations of the Authority, payable solely from (a) payments or prepayments on the Series 2011 Obligation, (b) payments or prepayments made under the Loan Agreement (other than Unassigned Rights), (c) moneys and investments held by the Bond Trustee under, and to the extent provided in, the Bond Indenture and (d) in certain circumstances, proceeds from insurance, condemnation awards and proceeds from sales made under threat of condemnation. In the Loan Agreement, the Corporation agrees to make payments to the Bond Trustee which, in the aggregate, are required to be in an amount sufficient for the payment in full of all amounts payable on the Series 2011 Bonds whether due at maturity, upon redemption, by declaration of acceleration or otherwise, and certain fees and expenses (consisting generally of fees and charges of the Bond Trustee, taxes, accountants' fees and any fees and expenses of the Authority and the Bond Trustee associated with the Series 2011 Bonds) (the "Additional Payments").

Certain investment earnings on monies held by the Bond Trustee may be transferred to a Rebate Fund established pursuant to a Tax Exemption Agreement. Amounts held in such Rebate Fund

will not be part of the “trust estate” pledged to secure the Series 2011 Bonds and consequently will not be available to make payments on the Series 2011 Bonds.

The Authority will assign its right, title and interest in the Loan Agreement and the Series 2011 Obligation to the Bond Trustee (except for (i) the right to receive any Additional Payments to the extent payable to the Authority, (ii) the right of the Authority to any indemnification and (iii) the right to receive any deposits to the Rebate Fund).

All or any portion of the Series 2011 Bonds may be advance refunded through the deposit in escrow of Government Obligations for the benefit of the owners of such refunded Series 2011 Bonds. See **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Defeasance”** in APPENDIX C.

The Bond Indenture permits certain amendments to be made to the Bond Indenture and the Loan Agreement upon the consent of the holders of a majority in aggregate principal amount of the Series 2011 Bonds. See **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Supplemental Bond Indentures”** and **“–SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT– Supplements and Amendments to the Loan Agreement”** in APPENDIX C.

The Series 2011 Bonds and the interest thereon do not constitute an indebtedness or an obligation, general or moral, or a pledge of the faith or loan of credit of the Authority, ABAG, the State of California or any public subdivision thereof, within the purview of any constitutional limitation or provision. The Authority shall not be obligated to pay the principal (or redemption price) of, premium, if any, or interest on the Series 2011 Bonds, except from revenues and other moneys and assets received by the Bond Trustee pursuant to the Loan Agreement. Neither the faith and credit nor the taxing powers, if any, of the Authority, ABAG nor the State of California or any political subdivision thereof is pledged to the payment of the principal (or redemption) of, premium, if any, or interest on the Series 2011 Bonds or other costs incidental thereto. No owner of any Series 2011 Bond shall have the right to compel the taxing power, if any, of the Authority, ABAG, the State of California or any political subdivision thereof to pay the principal of, premium, if any, or interest on the Series 2011 Bonds. The Authority and ABAG do not have the power to levy taxes for any purpose whatsoever.

The Series 2011 Obligation

The Master Indenture provides that payments on any Obligations issued and outstanding thereunder, including the Series 2011 Obligation and the Series 2000 Obligations, are the joint and several obligations of each Member of the Obligated Group (subject to the right of each Member to cease its status as a Member of the Obligated Group pursuant to the terms and conditions of the Master Indenture). Notwithstanding uncertainties with respect to the enforceability of the covenants in the Master Indenture of each Member of the Obligated Group to be jointly and severally liable for each Obligation, as described herein under the caption, **“RISK FACTORS – Certain Matters Relating to Enforceability,”** the accounts of the Members of the Obligated Group will be combined for financial reporting purposes and will be used in determining whether the covenants and tests contained in the Master Indenture are met.

The Bond Indenture designates the Bond Trustee as the holder of the Series 2011 Obligation. (See **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE”** in APPENDIX C.)

Certain amendments to the Master Indenture may be made with the consent of the holders of a majority of the aggregate principal amount of the Obligations then outstanding, including the Series 2011 Obligation. Such majority may be composed wholly or partially of the Bondholders of Obligations other than the holders of the Series 2011 Obligation.

The Series 2000 Obligations

Concurrently with the issuance of the Series 2011 Obligation, The Corporation will issue the Series 2000 Obligations, one to the 2000 Bond Trustee in the amount of \$22,540,000 and one to the 2000 LOC Bank. The Series 2011 Obligation will be equally and ratably secured on a parity with the Series 2000 Obligations.

Additional Indebtedness; Additional Obligations

Subject to compliance with the provisions of the Master Indenture, the Members of the Obligated Group may in the future incur Indebtedness (including Guaranties) which may, but need not, be evidenced or secured by an additional Obligation issued under the Master Indenture. See **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Additional Indebtedness.”** Any such additional Obligation shall, except as described herein, be equally and ratably secured on a parity with the Obligations then outstanding under the Master Indenture, including the Series 2011 Obligation. Subject to certain conditions set forth in the Master Indenture, such additional Obligations and other Additional Indebtedness may be secured by security in addition to that provided for the Series 2011 Obligation, including Liens on the Property of the Obligated Group, which additional security or Liens need not be extended to any other Indebtedness (including, without limitation, the Series 2011 Obligation). See the information set forth under the captions **“DEFINITIONS OF CERTAIN TERMS – Permitted Encumbrances”** and **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Encumbrances,”** **“– Sale, Lease or Other Disposition of Property”** in **APPENDIX C**. The restrictions on the creation of Liens on Property and the transfer of Property imposed on the Obligated Group under the Master Indenture are not applicable to Excluded Property. See **“DEFINITIONS OF CERTAIN TERMS – Excluded Property”** in **APPENDIX C**.

Debt Service Reserve Fund

The Master Indenture establishes a Parity Debt Service Reserve Fund (the “Parity Debt Service Reserve Fund”) held by the Master Trustee for the collective benefit of the Series 2011 Bonds and any other series of bonds or certificates of participation that receive the benefit of such security in accordance with the terms of the Master Indenture (collectively, the “DSRF Bonds”). As of the date of issuance of the Series 2011 Bonds, the Series 2011 Bonds and the Series 2000 COPs are the DSRF Bonds, and the Parity Debt Service Reserve Fund holds approximately \$9,500,000 in the form of a Reserve Fund Forward Sale Agreement dated as of December 9, 2002, by and among the Corporation, U.S. Bank National Association, and JPMorgan Chase & Co. (the “Forward Sale Agreement”), which shall remain in force through July 1, 2018 and which amount exceeds the Parity Debt Service Reserve Requirement, defined below.

The Master Indenture has a collective “Parity Debt Service Reserve Requirement” equal to the lesser of (i) an amount equal to the overall Maximum Annual Debt Service of Indebtedness (as each term is defined in the Master Indenture), represented by DSRF Bonds, (ii) an amount equal to 10% of the proceeds of all DSRF Bonds in aggregate, or (iii) an amount equal to the sum, for all series of DSRF Bonds, of 125% of the average Annual Debt Service, as defined in the Master Indenture, of DSRF Bonds

calculated on the date of issuance of such DSRF Bonds. The Obligated Group must maintain pooled monies in the Parity Debt Service Reserve Fund in an amount at equal to the Parity Debt Service Reserve Requirement, with a certain temporary overage tolerated in order to accommodate the Forward Sale Agreement. Bond trustees of DSRF Bonds, including the Bond Trustee, may draw on the Parity Debt Service Reserve Fund pro rata based on their respective amounts of Annual Debt Service of the Long-Term Indebtedness (as each term is defined in the Master Indenture) represented by DSRF Bonds for the then-current fiscal year.

In accordance with the Bond Indenture and the Master Indenture, the portion of the Parity Debt Service Reserve Fund available to secure the Series 2011 Bonds will be used by the Bond Trustee whenever, and to the extent that, monies on deposit in the Interest Fund and the Bond Sinking Fund (in the order listed) are insufficient for the purpose of paying interest on or principal of the Series 2011 Bonds as the same becomes due (either on Interest Payment Dates or on mandatory sinking fund redemption dates).

The Master Indenture provides that, in the event that the portion of the Parity Debt Service Reserve Fund available to secure a given series of DSRF Bonds, including the Series 2011 Bonds, is insufficient to avoid a default on the payment of interest thereon or principal thereof, the bond trustee for such DSRF Bonds may request that the Master Trustee seek approval from other bond trustees for other series of DSRF Bonds to use their respective portions of the Parity Debt Service Reserve Fund to cover the remaining deficiency and avoid an event of default. For any given other series of DSRF Bonds, including the Series 2011 Bonds, such use of its portion of the Parity Debt Service Reserve Fund requires the written approval of bondholders representing a majority in aggregate principal amount of such DSRF Bonds.

If, at any time, the amount on deposit in the Parity Debt Service Reserve Fund is less than 100% of the Parity Debt Service Reserve Fund Requirement as a result of a draw from a bond trustee of DSRF Bonds as provided in the Master Indenture, the Master Indenture requires the Obligated Group to restore the amount on deposit in the applicable fund to the applicable requirement in not more than 12 substantially equal monthly installments beginning with the first day of the seventh month after the month in which such draw occurred.

If, on any Valuation Date, as defined in the Master Indenture, the amount on deposit in the Parity Debt Service Reserve Fund is less than 90% of the Parity Debt Service Reserve Fund Requirement as a result of a decline in the market value of the investments in such fund, the Master Indenture requires the Obligated Group to deposit the amount necessary to restore the amount on deposit in the applicable fund to the applicable requirement within 120 days following the date the Obligated Group Representative receives notice of such deficiency.

All moneys on deposit in the Parity Debt Service Reserve Fund will be invested in Qualified Investments, as defined in the Master Indenture. Such Qualified Investments will be valued on the first Business Day of each Fiscal Year on the basis of fair market value (which valuation shall take into account any accrued and unpaid interest).

For more information concerning the Debt Service Reserve Fund, see **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Parity Debt Service Reserve Fund”** in **APPENDIX C**.

Security Interest in Gross Revenues and the Deeds of Trust

The Series 2011 Obligation will be secured by (i) a security interest in the Gross Revenues of the Obligated Group granted pursuant to the Master Indenture and (ii) a lien and security interest in the Property and Collateral pursuant to the Deeds of Trust. The “Property and Collateral” consists of the five CCRCs owned by the Corporation and certain related property and real estate on which they are located. The total book value of the property subject to the Deeds of Trust constitutes approximately 93.3% of the book value of all property, plant and equipment of the Corporation as of March 31, 2011. There can be no assurance that the book value of the Property and Collateral would be realized upon its disposition or at foreclosure. In the future, the value of the Property and Collateral could be substantially less than the principal amount of Obligations outstanding under the Master Indenture. Upon the issuance of the Series 2011 Bonds, the Obligated Group will deliver title insurance policies with respect to the Property and Collateral and Collateral for the benefit of the Master Trustee. See **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Pledge of Gross Revenues,”** and **“– SUMMARY OF CERTAIN PROVISIONS OF THE DEEDS OF TRUST”** in APPENDIX C and **“BONDHOLDERS’ RISKS – Certain Risks Associated with the Deeds of Trust,” “– Certain Matters Relating to Enforceability”** herein.

The Series 2011 Obligation will be issued pursuant to the Master Indenture and will be a general obligation of the Corporation and each Obligated Group Member under the Master Indenture and secured by a security interest in the Gross Revenues of the Obligated Group pursuant to the Master Indenture.

“Gross Revenues” are defined as all receipts, revenues, income and other money received by or on behalf of any Member of the Obligated Group from any source whatsoever, including, but not limited to, (a) revenues derived from the operation and possession of each Member’s facilities, including accounts receivable, (b) gifts, bequests, grants, donations and contributions, exclusive of any gifts, bequests, grants, donations or contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Required Payments or for the payment of operating expenses, and (c) revenues derived from (1) condemnation proceeds, (2) inventory and other tangible and intangible property, (3) private and governmental health care reimbursement programs and agreements, (4) insurance proceeds, (5) contract rights and other rights now or hereafter owned by each Member, and (6) realized investment earnings. As of the date hereof the Corporation is the only Member of the Obligated Group.

The pledge of Gross Revenues will be perfected to the extent and only to the extent that such security interest may be perfected by control as provided in the Uniform Commercial Code of the State of California. It may not be possible to perfect a security interest in any manner whatsoever in certain types of Gross Revenues (*e.g.*, gifts, donations, certain insurance proceeds and Medicare payments) prior to actual receipt by the Corporation for deposit into the Gross Revenue Fund.

Notwithstanding such security interest in the Obligated Group’s Gross Revenues, the Members of the Obligated Group may sell or otherwise transfer Gross Revenues and create Permitted Encumbrances thereon, in accordance with the provisions of the Master Indenture. See **APPENDIX C – “DEFINITIONS OF CERTAIN TERMS – Permitted Encumbrances.”** Also see **“BONDHOLDERS’ RISKS – Certain Matters Relating to Enforceability.”**

PLAN OF FINANCE

The proceeds of the Series 2011 Bonds will be loaned to the Corporation to (i) finance or reimburse certain capital improvements at continuing care retirement communities owned and operated by the Corporation (the “Project”), (ii) prepay the Series 1998 COPs, currently outstanding in the aggregate principal amount of \$54,415,000, and (iii) pay certain costs associated with the issuance of the Series 2011 Bonds and the repayment of the Series 1998 COPs.

A portion of the proceeds of the Series 2011 Bonds will be used to reimburse the Corporation for the preliminary expenses relating to the Spring Lake Village project discussed further herein. See “**BONDHOLDERS’ RISKS – Additional Capital Requirements.**”

A portion of the proceeds of the Series 2011 Bonds will be used to prepay Series 1998 COPs within 60 days of the delivery thereof at a prepayment price of 100% of par plus accrued interest to the prepayment date.

ESTIMATED SOURCES AND USES OF FUNDS

Proceeds to be received from the sale of the Series 2011 Bonds are estimated to be applied as set forth in the following table. The totals may not correspond exactly due to rounding.

Source of Funds:

Principal Amount of the Series 2011 Bonds	\$62,200,000
Net Original Issue Discount	(930,865)
Equity Contribution ⁽¹⁾	253,257
Trustee Held Funds	5,256,100
Total Sources of Funds	\$66,778,492

Uses of Funds:

Refunding of Series 1998 COPs	\$55,313,603
Reimbursement to the Corporation for Project costs	9,986,249
Costs of Issuance ⁽²⁾	1,478,640
Total Uses of Funds	\$66,778,492

⁽¹⁾ Corporation equity will be used to pay costs of issuance in excess of 2% of the sale proceeds of the Series 2011 Bonds.

⁽²⁾ Includes Authority fees, legal fees, underwriter’s discount, printing costs, accounting fees, rating agency fees and other costs of issuance.

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS

The following table sets forth, for each bond year ending July, the estimated amounts required to be available for the payment of principal of (including Bond Sinking Fund payments) and interest on the Series 2011 Bonds, and the aggregate debt service on the Series 2000 COPs. The totals of the columns and rows may not correspond exactly due to rounding.

Year Ending July 1,	The Series 2011 Bonds		The Series 2000 COPs ⁽¹⁾	Total Long-Term Debt Service
	Principal	Interest*		
2012	\$ 610,000	\$2,457,487	\$2,132,998	\$5,200,485
2013	920,000	3,607,500	2,126,535	6,654,035
2014	960,000	3,570,700	2,130,779	6,661,479
2015	995,000	3,532,300	2,131,946	6,659,246
2016	1,045,000	3,482,550	2,131,528	6,659,078
2017	1,100,000	3,430,300	2,126,993	6,657,293
2018	1,155,000	3,372,550	2,132,109	6,659,659
2019	1,215,000	3,311,913	2,128,989	6,655,901
2020	1,280,000	3,248,125	2,128,805	6,656,930
2021	1,350,000	3,180,925	2,129,840	6,660,765
2022	1,420,000	3,110,050	2,129,203	6,659,253
2023	1,495,000	3,035,500	2,130,337	6,660,837
2024	1,575,000	2,955,144	2,133,509	6,663,652
2025	1,660,000	2,870,488	2,133,211	6,663,698
2026	1,760,000	2,768,813		4,528,813
2027	1,865,000	2,661,013		4,526,013
2028	1,980,000	2,549,113		4,529,113
2029	2,100,000	2,430,313		4,530,313
2030	2,225,000	2,304,313		4,529,313
2031	2,360,000	2,170,813		4,530,813
2032	2,500,000	2,029,213		4,529,213
2033	2,650,000	1,876,088		4,526,088
2034	2,815,000	1,713,775		4,528,775
2035	2,985,000	1,541,356		4,526,356
2036	3,170,000	1,358,525		4,528,525
2037	3,365,000	1,164,363		4,529,363
2038	3,570,000	958,256		4,528,256
2039	3,790,000	739,594		4,529,594
2040	4,020,000	507,456		4,527,456
2041	4,265,000	261,231		4,526,231
Total	<u>\$62,200,000</u>	<u>\$72,199,762</u>	<u>\$29,826,782</u>	<u>\$164,226,544</u>

* May not foot due to rounding.

⁽¹⁾ The Series 2000 COPs are assumed to bear an all-in interest rate, including letter of credit related fees, of 4.00%.

CERTAIN COVENANTS OF THE OBLIGATED GROUP UNDER THE MASTER INDENTURE

Rate Covenant

Each Obligated Group Member covenants in the Master Indenture to fix, charge and collect rates for the use of its facilities and for the services furnished so that the Long-Term Debt Service Coverage Ratio of the Obligated Group as a whole meets the standards set forth in the Master Indenture and summarized herein.

The Members covenant and agree that the Obligated Group Representative shall compute the Long-Term Debt Service Coverage Ratio and promptly furnish to the Master Trustee an Officer's Certificate setting forth the results of such computation. If the Long-Term Debt Service Coverage Ratio of the Obligated Group is less than 1.20, the Master Trustee shall require the Obligated Group to retain an Independent Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and the Obligated Group's methods of operation and other factors affecting its financial condition in order to increase such Long-Term Debt Service Coverage Ratio to at least 1.20:1 for the following Fiscal Year.

A copy of the Independent Consultant's report and recommendations, if any, shall be filed with the Required Information Recipients within 60 days of retaining such Independent Consultant. Each Member shall follow each recommendation of the Independent Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Member) and permitted by law. This provision of the Master Indenture shall not be construed to prohibit any Member from serving indigent patients or residents to the extent required for such Member to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients or residents without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the requirements of the Master Indenture.

The foregoing notwithstanding, failure of the Obligated Group to achieve the required Long-Term Debt Service Coverage Ratio for any Fiscal Year shall not constitute an event of default under the Master Indenture if the Obligated Group takes all action necessary to comply with the procedures set forth above for preparing a report and adopting a plan and follows each recommendation contained in such report to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law; provided, however, that it shall be an Event of Default under the Master Indenture if (i) the Obligated Group fails to achieve a Long-Term Debt Service Coverage Ratio of at least 1.00:1 in a Fiscal Year in which the Days Cash on Hand of the Obligated Group as of the last day of such Fiscal Year was less than 125, or (ii) the Obligated Group shall fail to achieve a Long-Term Debt Service Coverage Ratio of at least 1.00:1 for two consecutive Fiscal Years.

See **“SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Rates and Charges; Debt Coverage”** in **APPENDIX C**.

Liquidity Covenant

The Obligated Group covenants that it will calculate the Days Cash on Hand of the Obligated Group as of March 31 and September 30 of each fiscal year (each such date being a “Testing Date”). The Obligated Group shall include such calculations in the Officer's Certificates delivered pursuant to the Master Indenture.

Each Obligated Member are required to conduct their business so that on each testing date the Obligated Group shall have not less than 125 Days Cash on Hand for each Testing Date.

If the amount of Days Cash on Hand as of any Testing Date is less than 125, the Obligated Group Representative shall, within 30 days after receipt of the Officer's Certificate disclosing such deficiency, deliver an Officer's Certificate approved by a resolution of the Governing Body of the Obligated Group Representative to the Master Trustee setting forth in reasonable detail the reasons for such deficiency and adopting a specific plan setting forth steps to be taken designed to achieve the required level of Days Cash on Hand for future periods.

If the Obligated Group has not achieved 125 Days Cash on Hand by the next Testing Date following delivery of the Officer's Certificate required in the preceding paragraph, the Obligated Group Representative shall, within 30 days after receipt of the Officer's Certificate disclosing such deficiency, retain an Independent Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and the Obligated Group's methods of operation and other factors affecting its financial condition in order to increase the Days Cash on Hand to the required level for future periods. A copy of the Independent Consultant's report and recommendations, if any, shall be filed with each of the Required Information Recipients within 60 days of the date such Independent Consultant is retained. Each Member of the Obligated Group shall follow each recommendation of the Independent Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of the Member) and permitted by law.

Notwithstanding any other provision of the Master Indenture, failure of the Obligated Group to achieve the required liquidity covenant for any fiscal year shall not constitute an event of default under the Master Indenture if the Obligated Group takes all action necessary to comply with the procedures set forth above for preparing a report and adopting a plan and follows each recommendation contained in such report to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law.

See "**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Liquidity Covenant**" in APPENDIX C.

Approval of Consultants

If at any time the Obligated Group Representative is required to engage an Independent Consultant under the Master Indenture relating to the Rate Covenant or Liquidity Covenant, the Independent Consultant shall be engaged in the manner set forth below in this Section.

Upon selecting an Independent Consultant as required under this Master Indenture, the Obligated Group Representative will notify the Master Trustee of the selection. The Master Trustee shall, as soon as practicable but in no case longer than five Business Days after receipt of notice, notify the owners of the Obligations Outstanding of such selection. Such notice shall (i) include the name and a brief description of the Independent Consultant, (ii) state the reason that the Independent Consultant is being engaged including a description of the covenant(s) of the Master Indenture that require the Independent Consultant to be engaged, and (iii) state that each owner of an Obligation will be deemed to have consented to the selection of the Independent Consultant named in such notice unless such owner submits an objection to the selected Independent Consultant in writing (in a manner acceptable to the Master Trustee) to the Master Trustee within 15 days of the date that the notice is sent to the owners. No later than two Business Days after the end of 15-day objection period, the Master Trustee shall notify the Obligated Group Representative of the number of objections. If two-thirds or more in aggregate principal amount of the owners of the Outstanding Master Notes have been deemed to have consented to the

selection of the Independent Consultant, the Obligated Group Representative shall engage the Independent Consultant within five days of receiving notice of that consent. If more than one-third in aggregate principal amount of the owners of the Obligations Outstanding have objected to the Independent Consultant selected, the Obligated Group Representative shall select another Independent Consultant within 14 days after receiving notice of such objection, which Independent Consultant may be engaged upon compliance with the procedures of this Section.

All Independent Consultant reports required under the Master Indenture shall be prepared in accordance with then-effective industry-appropriate standards.

See “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Approval of Consultants**” in APPENDIX C.

RISK FACTORS

Set forth below are certain risk factors which should be considered before any investment in the Series 2011 Bonds is made. Certain risks are inherent in the successful operation of the Corporation’s facilities. **This section discusses some of these risks but is not intended to be, and should not be considered, a comprehensive listing of all risks associated with the operation of The Corporation’s facilities or the payment of the Series 2011 Bonds.**

General

As described herein under the caption, “**INTRODUCTION – Security for the Series 2011 Bonds,**” the principal of, premium, if any, and interest on the Series 2011 Bonds, except to the extent that the Series 2011 Bonds will be payable, under certain circumstances, from proceeds of insurance, sale or condemnation awards or net amounts by recourse to the Deeds of Trust, are payable solely from amounts payable by the Corporation under the Loan Agreement, the Series 2011 Obligation and from certain funds held under the Bond Indenture. No representation or assurance is given or can be made that revenues will be realized by the Corporation in amounts sufficient to pay debt service on the Series 2011 Bonds when due and other payments necessary to meet the obligations of the Corporation. The Risk Factors discussed below should be considered in evaluating the ability of the Corporation to make payments in amounts sufficient to provide for the payment of the principal of, premium, if any, and interest on the Series 2011 Bonds.

The receipt of future revenues by the Corporation will be subject to, among other factors, federal and state policies affecting the senior housing and health care industries (including changes in reimbursement rates and policies), increased competition from other senior housing and health care providers, the capability of the management of the Corporation and future economic and other conditions that are impossible to predict. The extent of the ability of the Corporation to generate future revenues has a direct effect upon the payment of principal of, premium and purchase price, if any, and interest on the Series 2011 Bonds. Neither the Underwriter nor the Authority has made any independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the Corporation.

This discussion of Risk Factors is not, and is not intended to be, exhaustive.

Impact of Market Turmoil

The recent economic turmoil had severe negative repercussions upon the United States and global economies. This impact was particularly severe in the financial sector, prompting a number of banks and other financial institutions to seek additional capital, to merge, and, in some cases, to cease

operating. The effects of this turmoil can still be seen in the scarcity of credit, lack of confidence in the financial sector, volatility in the financial markets, fluctuations in interest rates, reduced economic activity, increased business failures, high unemployment and increased consumer and business bankruptcies. The recent turmoil and any similar future market turmoil could affect the market and demand for the Series 2011 Bonds in addition to adversely affecting the value of any investments of the Corporation or any future Member of the Obligated Group.

California State Budget

Many states, including California (the “State”), face severe financial challenges, including erosion of general fund tax revenues, falling real estate values, slower economic growth and higher unemployment, which may continue or worsen over the coming years.

The State may seek to address budget shortfalls by amending the property tax statutes to subject to taxation properties owned by nonprofit organizations such as the Corporation. See “**Property Taxes; State and Local Tax Exemption**” herein. The State’s 2011-2012 budget closed the \$26.6 billion dollar deficit, but in doing so relies to a material extent on increased revenues and decreased spending, including State spending on the elderly. It is uncertain at this point what effect the revisions to revenue generation and spending cuts will have on the Corporation, but previously proposed restrictions related to cutbacks to California’s Medicaid program, Medi-Cal, and elimination of property tax or income tax exemptions for nonprofit public benefit corporations like the Corporation. As a result, management is unable to assess the exact impact on the Corporation’s operations, but they could be material.

Seismic Risk

According to the Seismic Safety Commission of the State of California, the State is mapped into seismic hazard zones 3 and 4. Seismic hazard zones account for geographic variation in the expected levels of earthquake ground shaking and are based on the historical records of earthquakes and the location of known earthquake faults. Several earthquake faults run through Santa Clara, San Joaquin, Santa Barbara and Alameda Counties, the location of certain of the Corporation’s CCRCs. Local building codes take into account the likelihood of ground shaking and are intended to provide safety to the building occupants.

There can be no assurance that the occurrence of a significant seismic event in any area in which the Corporation operates would not have a material adverse effect on its facilities, the operations of the Corporation or the ability of the Corporation to pay the principal, premium, if any, and interest on the Series 2011 Bonds.

Uncertainty of Revenues

As noted elsewhere, except to the extent that the holders of the Series 2011 Bonds are secured, under certain circumstances, by the proceeds of insurance, sale or condemnation awards, the Series 2011 Bonds will be payable solely from payments or prepayments to be made by the Corporation under the Loan Agreement, the Series 2011 Obligation and from certain funds held under the Bond Indenture. The ability of the Corporation to make payments under the Loan Agreement and the Series 2011 Obligation is dependent upon the generation by the Corporation of revenues in the amounts necessary for the Corporation to pay the principal, premium, if any, and interest on the Series 2011 Bonds, as well as other operating and capital expenses. The realization of future revenues and expenses are subject to, among other things, the capabilities of the management of the Corporation, government regulation and future economic and other conditions that are unpredictable and that may affect revenues and payment of principal of and interest on the Series 2011 Bonds. No representation or assurance can be

made that revenues will be realized by the Corporation in amounts sufficient to make the required payments with respect to debt service on the Series 2011 Bonds. Neither the Underwriter nor the Authority has made any independent investigation of the extent to which any such factors may have an adverse effect on the revenues of the Corporation.

Failure to Achieve and Maintain Occupancy and Turnover

The economic feasibility of the Corporation's operations depends in large part upon the ability of the Corporation to maintain substantial occupancy and turnover of occupancy throughout the term of the Series 2011 Bonds. This depends to some extent on factors outside management's control, such as the residents' right to terminate their residency agreements. Moreover, if a substantial number of residents live beyond the anticipated life expectancies assumed by the Corporation or if the permanent transfers to the nursing home floors of the communities are substantially less than assumed by the Corporation, or if market changes require a reduction in the amount of the Entrance Fees payable by new residents, the receipt of additional Entrance Fees would be curtailed, with a consequent impairment of the revenues of the Corporation's operations. Such impairment could also result if the Corporation is unable to remarket units as they become available. If the Corporation's operations fail to maintain occupancy levels, resell, in a timely manner, independent living units and assisted living units as they become available, or if there is a reduction in the amount of Entrance Fees received, there may be insufficient funds to pay the debt service on the Series 2011 Bonds.

Sale of Personal Residences

Prospective residents of the Corporation's facilities may be required to sell their current homes to pay the entrance fee prior to occupancy or to meet other financial obligations under their residency agreements. If prospective residents encounter difficulties in selling their current homes due to local or national economic conditions affecting the sale of residential real estate, such prospective residents may not have sufficient funds to pay the entrance fee or to meet other financial obligations under their residency agreements, thereby causing a delay in scheduled occupancy of the Corporation's facilities or the remarketing of vacated units, either of which would have an adverse impact on the revenues of the Corporation.

Nature of the Income of the Elderly

A large percentage of the monthly income of the residents of the Corporation's facilities will be fixed income derived from pensions and Social Security. In addition, some residents will be liquidating assets in order to pay the monthly and other fees. If, due to inflation or otherwise, substantial increases in fees are required to cover increases in operating costs, wages, benefits and other expenses, many residents may have difficulty paying or may be unable to pay such increased fees. Alternatively, any decrease in the amounts paid by such fixed income sources could affect the ability of residents to pay fees and additional restrictions imposed upon Social Security or other fixed income sources could affect the ability of future residents to pay the entrance fee or to meet other financial obligations under the residency agreements. The Corporation's inability to collect from residents the full amount of their payment obligations may jeopardize the ability of the Corporation to pay amounts due under the Loan Agreement, as well as its Obligations.

Utilization Demand

Several factors could, if implemented, affect demand for services of the Corporation's facilities 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 nursing home, assisted living facilities and long-term care facilities now or hereafter located in the service areas of the Corporation's CCRCs.

Competition

Competition from other lifecare facilities, continuing care retirement communities, congregate housing, assisted living centers, home healthcare agencies and other long-term care facilities which offer sheltered, assisted living or nursing care now or hereafter located in the Corporation's service areas could adversely affect its revenues. The Corporation may face additional competition in the future from other providers of new, expanded, or renovated retirement living and nursing facilities servicing the housing and health care needs of the elderly.

Uncertainty of Investment Income

The investment earnings of, and accumulations in, certain funds established pursuant to the Bond Indenture otherwise 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 Bond Trustee is permitted to invest under the Bond 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 earnings will actually be realized. Guaranteed investment contracts may be entered into with respect to certain of the funds held under the Bond Indenture.

Rights of Residents

The Corporation enters into residency agreements with its residents. Although these agreements give to each resident a contractual right to use space and do not grant any ownership rights in the Corporation's facilities, in the event that the Bond Trustee, the holders of the Series 2011 Bonds or the holders of the Series 2000 COPs seek to enforce any of the remedies provided by the Bond Indenture upon the occurrence of a default or the Master Trustee seeks to enforce remedies under the Deeds of Trust, management is unable to predict the resolution that a court might make of competing claims between the Master Trustee, the Bond Trustee, the Authority or the holders of the Series 2011 Bonds or Series 2000 COPs and a resident of the Corporation's facilities who has fully complied with all the terms and conditions of his or her Residency Agreement.

Additional Capital Requirements

The Corporation's operations are capital intensive. Current economic conditions, including credit market dysfunction and increased regulation of the financial industry could make it more difficult for the Obligated Group to access the capital markets or to otherwise fund capital expenses through borrowings on favorable terms and conditions. Any such limitation could result in delayed or deferred capital expenditures that could be integral to the operations of the Corporation.

The Corporation is currently in a master planning process (the "plan") to renovate and expand the Spring Lake Village campus which would require significant new financing. For more information relating to the plan see "**OBLIGATED GROUP COMMUNITIES – Spring Lake Village**" in **APPENDIX A**.

Interest Rate Swap

The Corporation has entered into an interest rate swap transaction with a notional amount of approximately \$40,000,000 with Wells Fargo Bank, National Association, successor to Wachovia Bank, National Association (the “Counterparty”), which terminates in accordance with the terms thereof on July 1, 2018. If the interest rate swap is earlier terminated under certain market conditions, the Corporation may owe a termination payment to the Counterparty. Such termination payment generally would be based upon the market value of the interest rate swap on the date of termination and could be substantial. In the event of an early termination of an interest rate swap, 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. The Corporation has credit risk to the extent the Counterparty’s credit or ability to perform is reduced. In addition, in certain circumstances, the interest rate swap may require the Obligated Group to post collateral to the Counterparty should the negative market value thereof exceed a certain threshold. As of the date hereof, the Corporation has not been required to post collateral.

Present and Prospective Federal and State Regulation

General. Health care providers are subject to federal, state and local laws and regulations, and sanctions imposed under or changes to such laws or regulations could adversely affect the operations or financial results of the Corporation. Further reductions in federal and state funding of health care below levels authorized by present law can be expected.

Nursing care facilities, including those owned by the Corporation, are subject to numerous licensing, certification, accreditation, and other governmental requirements. These include, but are not limited to, requirements relating to state licensing agencies, private payors and accreditation organizations. Sheltered and assisted living facilities, including those owned by 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.

Budget Control Act. On August 2, 2011 the President signed the Budget Control Act of 2011 (the “BCA”) into law. The BCA raises the nation’s debt ceiling through 2012, with a deficit reduction of at least \$2.1 trillion to occur over the next decade. The BCA also creates a bipartisan congressional committee responsible for identifying up to an additional \$1.5 trillion in spending cuts over the next decade. By November 23, 2011, this committee must propose legislation achieving at least \$1.2 trillion in reductions. Congress will then consider this legislation under fast-track procedures and must decide by December 23, 2011 whether it will enact the committee’s legislation. If such legislation is not enacted, automatic reductions in discretionary and mandatory spending of \$1.2 trillion will begin in 2013, including reductions to Medicare of up to 2%. At this time, it is impossible to predict which programs may be impacted by the bipartisan committee’s spending reductions, and it is impossible to predict the impact any spending cuts that are approved may have upon the Obligated Group. Similarly, it is impossible to predict whether the 2% automatic reduction to Medicare may be triggered in lieu of spending cuts proposed by the bipartisan committee. If Medicare spending is reduced under either scenario, this may have a material adverse effect upon the Obligated Group.

MDS 3.0. The Minimum Data Set (“MDS”) is a CMS tool for implementing standardized assessment and for facilitating care management in nursing homes. Many private and public stakeholders expressed concerns about the reliability, validity, and relevance of the previously employed MDS 2.0. On October 1, 2010, implementation of MDS 3.0 commenced. MDS 3.0 was designed to improve the reliability, accuracy, and usefulness of the MDS, and CMS expects these improvements to have profound implications for nursing home care and public policy.

Health Care Reform. The “Patient Protection and Affordable Care Act”, and “The Health Care and Education Affordability Reconciliation Act of 2010”, (together referred to herein as the “Health Reform Act”) are expected to have a significant impact on the entire healthcare industry. Some of the provisions of the Health Reform Act have taken effect immediately and others will be phased in during a period of time ranging from one to ten years. New guidelines and regulations related to the Health Reform Act will likely be enacted. Attempts to repeal provisions of the Health Care Reform Act are pending in Congress, and the constitutionality of the Health Care Reform Act is being challenged in courts across the country. The ultimate outcomes of legislative attempts to repeal or amend the Health Care Reform Act and other legal challenges to the Health Care Reform Act are unknown.

The Health Reform Act provides changes with respect to how consumers will pay for their own and their families’ health care and how employers will procure health insurance for their employees. In addition, the Health Reform Act requires insurers to change certain underwriting practices and benefit structures in order to cover individuals who previously would have been ineligible for health care insurance coverage. As a result, there is expected to be a tremendous increase in the number of individuals eligible for health care insurance coverage.

The legislation intends to accomplish this objective through various provisions, including: (i) creating active markets (referred to as exchanges) in which individuals and small employers can purchase health care insurance for themselves and their families or their employees and dependents, (ii) providing subsidies for premium costs to individuals and families based upon their income relative to federal poverty levels, (iii) mandating that individuals obtain and certain employers provide a minimum level of health care insurance, and providing for penalties or taxes on individuals and employers that do not comply with these mandates, (iv) establishing insurance reforms that expand coverage generally through such provisions as prohibitions on denials of coverage for pre-existing conditions and elimination of lifetime or annual cost caps, and (v) expanding existing public programs, including Medicaid for individuals and families. It is expected that there will be an increase in demand for health care services given that those who previously did not have access to health care because they could not afford it will now be eligible for health care coverage.

Some of the provisions of the Health Care Reform Act that may adversely affect the Obligated Group’s operations, financial performance or financial conditions, including those of the Corporation, are described below. This listing is not, is not intended to be, nor should be considered by the reader as, comprehensive. The Health Care Reform Act is complex and comprehensive, and includes a myriad of new programs and initiatives and changes to existing programs, policies, practices and laws. Moreover, the Health Care Reform Act remains subject to amendment, repeal, lack of implementation and failure to fund. The demographics of the markets the Obligated Group serves, the mix of services that it provides to the community and other factors that are unique to the Obligated Group will affect individual outcomes. At this time, Management of the Obligated Group cannot predict the aggregate effect of the Health Care Reform Act upon the Obligated Group.

The following provisions of the Health Reform Act may affect the operations or financial condition of the Obligated Group:

- On August 8, 2011, the Centers for Medicare & Medicaid (“CMS”) published a final rule entitled, “Prospective Payment System and Consolidated Billing for Skilled Nursing Facilities for FY 2012,” which CMS estimates will result in a net 11.1 percent decrease of \$3.87 billion in payments to skilled nursing facilities (“SNFs”). Pursuant to this regulation, the FY 2012 payment rates were updated and the SNF PPS case mix was recalibrated.
- There will be an expansion of Medicaid programs to a broader population with incomes up to 133% of federal poverty levels.
- With varying effective dates, the Health Reform Act mandates a reduction of waste, fraud, and abuse in public programs by allowing provider enrollment screening, enhanced oversight periods for new providers and suppliers, and enrollment moratoria in areas identified as being at elevated risk of fraud in all public programs, and by requiring Medicare and Medicaid program providers and suppliers to establish compliance programs. The legislation requires the development of a database to capture and share healthcare provider data across federal healthcare programs and also provides for increased penalties for fraud and abuse violations, and increased funding for antifraud activities.
- The Health Care Reform Act provides for the establishment of an Independent Payment Advisory Board (“IPAB”) to develop proposals to improve the quality of care and limitations on cost increases. If future Medicare spending is expected to exceed specified targets, the IPAB will propose recommendations to Congress and the President to reduce the growth rate. The IPAB’s first set of recommendations will be proposed on January 15, 2014. If Congress fails to pass legislation by Aug. 15 each year to achieve the required savings through other policy changes, the IPAB’s recommendations will automatically take effect.
- The Health Reform Act also provides for the implementation of various demonstration programs and pilot projects to test, evaluate, encourage and expand new payment structures and methodologies to reduce health care expenditures while maintaining or improving quality of care, including bundled payments under Medicare and Medicaid, and comparative effectiveness research programs that compare the clinical effectiveness of medical treatments and develop recommendations concerning practice guidelines and coverage determinations. In particular, pursuant to the Health Care Reform Act, CMS is developing a plan to implement a value-based purchasing program for SNFs, with a report due to Congress by October 1, 2011. Additional demonstration projects and pilot programs are designed to develop best practices in nursing facilities and improve the capacity of state long-term care ombudsmen programs. Other provisions encourage the creation of new health care delivery programs, such as accountable care organizations, or combinations of provider organizations, that voluntarily meet quality thresholds to share in the cost savings they achieve for the Medicare program.
- The Health Reform Act requires a study regarding expanding the current Hospital-Acquired Conditions policy (which applies to acute care hospitals in the Medicare program) to apply to payments made in various post-acute settings, including SNFs. CMS shall report the results of this study to Congress by January 1, 2012.

- Commencing October 1, 2010 through September 30, 2019, payments under the “Medicare Advantage” programs (Medicare managed care) have been and will continue to be restructured, which may result in increased premiums or out-of-pocket costs to Medicare beneficiaries enrolled in Medicare Advantage plans. Those beneficiaries may terminate their participation in those plans and opt for the traditional Medicare fee-for-service program. The reduction in payments to Medicare Advantage programs may also lead to decreased payments to providers by managed care companies operating Medicare Advantage programs. All or any of these outcomes will have a disproportionately negative effect upon those providers with relatively high dependence upon Medicare managed care revenues.
- The Health Reform Act imposes additional disclosure, transparency, compliance, quality assurance, staffing, and reporting requirements on nursing facilities, and the failure to satisfy some of these requirements can result in significant penalties. For example, failure to report a crime committed against a resident of a long-term care facility within specified timeframes can result in penalties of up to \$300,000 and exclusion from federal health care programs.

Management of the Obligated Group is analyzing the Health Care Reform Law and will continue to do so in order to assess the effects of the legislation on current and projected operations, financial performance and financial condition. However, management cannot predict with any reasonable degree of certainty or reliability any interim or ultimate effects of the legislation.

Medicare and Medicaid Programs. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, blind, disabled, or qualify for the end stage renal disease program. Medicaid, known as Medi-Cal in California, is a program of financial assistance, funded jointly by the federal government and each of the various states, primarily for medical assistance to certain needy individuals and their dependents. Due to health care reform as well as continuing political and financial pressures, the legal and regulatory environment surrounding the Medicaid and Medicare programs has been changing and is expected to continue to change. Future changes to Medicare and Medicaid may alter features including: (1) services eligible for payment; (2) rates of payment; (3) eligibility requirements to participate or qualify for different levels of payment/reimbursement; (4) consequences of violations; (5) rates and requirements relating to additional payments unrelated to services offered to patients; (6) guidelines relating to interactions between the participating healthcare providers, third party payors and the federal and state governments; and (7) payment methodologies. Currently, none of the Corporation’s revenues come from Medi-Cal. To the extent that the Corporation qualifies for and receives such payments in the future, the Corporation will be subject to a plethora of additional regulations and requirements and any such payments could be discontinued at any time. In Fiscal Year 2010, approximately 7.53% of the Obligated Group’s gross revenues were derived from payment from Medicare. While it is uncertain whether future federal budgets will result in a decrease in Medicare revenue, any reduction thereof could have an adverse impact on the revenues of the Corporation and the ability to pay the debt service of the Series 2011 Bonds.

Medicare and Medicaid Anti-Fraud and Abuse Provisions. The Medicare and Medicaid 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 or Medicaid recipients. 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 and Medicaid programs, 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 or Medicaid services, for not less than five years. Exclusion from these programs could 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 anticipates that the Corporation will have a compliance program designed to help ensure material compliance with the Anti-Kickback Law. 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 could 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 or Medicaid when the patient is referred by a physician or an immediate family member with a financial relationship with the designated health services 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 exclusion from the Medicare and Medicaid programs.

Management of the Corporation has a compliance program to help ensure material compliance with the Stark provisions. However, in light of the scarcity of case law interpreting the Stark law provisions, there can be no assurances that the Corporation will not be found to have violated the Stark law provisions, and if so, whether any sanction imposed would have a material adverse effect on the operations or the financial condition of the Corporation.

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 specific 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. On May 20, 2009, Secretary of HHS, Kathleen Sebelius, and Attorney General Eric Holder announced the creation of the Health Care Fraud Prevention and Enforcement Action Team (“HEAT”), an interagency effort focused specifically on combating health care fraud. HEAT includes senior officials from the Department of Justice (“DOJ”) and HHS who are strengthening existing programs, as well as investing in new resources and technologies, to prevent and combat fraud, waste, and abuse. As a key component of its efforts, the HEAT taskforce utilizes and

supports the joint HHS-DOJ Medicare Fraud Strike Force team in select locations across the country, including, since 2008, Los Angeles. The Strike Force teams coordinate law enforcement operations with other Federal, State and local law enforcement entities. While management believes that the Corporation's billing practices will be consistent with Medicare criteria, those criteria are often vague and subject to interpretation and there can be no assurance that aggressive anti-fraud actions will not adversely affect the business of the Corporation.

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 percent of any money recovered. The potential exists that a Qui Tam action could be brought against the Corporation.

State Requirements. The Corporation's facilities are operated as CCRCs consisting of a residential portion licensed as a Residential Care Facility for the Elderly ("RCFE") by the California Department of Social Services ("DSS") and a health facility portion licensed as a skilled nursing facility by the California Department of Public Health ("DPH"). The Corporation has DSS permits to accept entrance fee deposits from prospective CCRC residents and to enter into CCRC contracts.

Management of the Corporation intends that the Parity Debt Service Reserve Fund established under the Master Indenture will satisfy the debt service reserve requirement under California law applicable to CCRCs that the Corporation maintain a "debt service reserve" portion of its required "liquid reserve" equal to at least the amount of the sum of the following: (a) the principal, interest and credit enhancement premiums paid by the Corporation during the immediately preceding Fiscal Year on account of any fully amortizing long-term debt owed by the Corporation, (b) facility rental or leasehold payments, and any related payments such as lease insurance, paid by the Corporation during the immediately preceding Fiscal Year and (c) all payments paid by the Corporation during the immediately preceding Fiscal Year on account of any debt that provides for a balloon payment.

Currently, the Corporation does not offer or assume any responsibility for refundable contracts. If, at any point in the future, the Corporation offers or assumes any responsibility for refundable contracts, the Corporation will be required to maintain a refund reserve in trust for the residents. The amount of the refund reserve would need to be revised annually by the Corporation and the Corporation would need to submit a report of its calculation of the refund reserve amount in conjunction with its annual report.

In addition, the Corporation must maintain 75 days of net operating expenses. Pursuant to California law, other than the general security pledge of assets securing the Series 2011 Bonds, the Series 2000 COPs and any future Obligations, the Corporation may not subject its "liquid reserve" to any liens, charges, judgments, garnishments or creditors' claims or otherwise hypothecate it, pledge it as collateral or encumber it. If the Debt Service Reserve Fund were drawn upon to pay debt service, the Corporation would be required to use other funds to satisfy this "liquid reserve" requirement. The Corporation must certify to DSS on an annual basis that it is in compliance with this requirement. Failure to comply results in DSS having certain enforcement rights.

DPH inspects nursing homes approximately once a year, and facilities failing to meet the state or federal standards are subject to fines or other enforcement actions. The Continuing Care Contracts Branch of DSS enters and reviews each CCRC in the state at least once every three years to augment the branch's assessment of the CCRC's financial soundness. The branch considers the condition of the facility, whether the facility is operating in compliance with applicable state law, and whether the CCRC is performing the services it has specified in its continuing care contracts. DPH and

DSS have the ability to deny licensing and the required permits to the Corporation if either of them is not satisfied with the Corporation's compliance with the requirements a provider must meet to operate as a skilled nursing facility and/or a RCFE, respectively. In addition, DPH and DSS both have broad remedial powers to intervene in the operations of a provider who fails to comply with the applicable regulatory requirements once the provider is licensed and in operation. Failure to maintain required reserves or to comply with regulatory requirements may result in civil penalties or the suspension or revocation of a CCRC's certificate of authority. Upon certain failures to comply with applicable regulatory requirements, including the CCRC becoming insolvent or unable to perform its contractual obligations, DSS is authorized to petition for the appointment of a court-appointed administrator to rehabilitate the CCRC. In this capacity, the administrator's powers include taking possession of the CCRC's assets and property, dealing with the property in the administrator's name, depositing and investing any of the CCRC's funds, and paying all expenses of the rehabilitation. In the event a permanent relocation of residents from one or more of the Corporation's CCRCs is required due to termination or forfeiture of the Corporation's certificate of authority or license, except in the case of a natural disaster or other event out of the Corporation's control, certain procedures are required to be followed. These procedures include establishment of a reserve, trust fund or performance bond in an amount sufficient to cover the cost and ensure the fulfillment of the Corporation's statutory obligations, which include the cost of moving residents to other facilities and may include additional monetary compensation to the affected residences in certain circumstances.

When necessary to secure a provider's performance of its contractual obligations, or if the provider's annual report indicates that the provider has an unfunded reserve requirement, DSS may record a notice or notices of lien on behalf of depositors or residents. From the date of recording, such liens will attach to all real property owned or acquired by the provider during the pendency of the lien, provided that the property is not exempt from the execution of a lien and is located within the county in which the lien is recorded. Such liens have the force, effect, and priority of a judgment lien. DSS will file a release of the lien if DSS determines that the lien is no longer necessary to secure the provider's performance of its obligations to the depositors or residents.

If the Corporation fails to meet the above-described requirements, it could become unable to operate as described herein and, consequently, be unable to meet debt service requirements on the Series 2011 Bonds and Series 2000 COPs.

States, including California, also have anti-kickback statutes and physician self-referral prohibitions similar to the federal laws described above. Violations of these laws may result in civil and criminal penalties. In light of the broad language and interpretations of these laws, however, 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 CCRCs or the financial condition of the Corporation.

Health Information. Specific state and federal laws govern the use and disclosure of confidential patient health information, as well as patients' rights to access and amend their own health information. The Administrative Simplification Requirements of the Health Insurance Portability and Accountability Act of 1996 ("HIPAA") established national standards to facilitate the electronic exchange of Protected Health Information ("PHI") and to maintain the privacy and security of the PHI. These standards have a major effect on health care providers which transmit PHI in electronic form in connection with HIPAA standard transactions (e.g., health care claims). In particular, HIPAA established standards governing: (1) Electronic Transactions and Code Sets; (2) Privacy; (3) Security; and (4) National Identifiers. The Corporation has developed policies, procedures and practices that it believes comply with the HIPAA standards and requirements, but if it was determined that the Corporation was not in compliance there could be criminal and civil penalties imposed.

Title XIII of the American Recovery and Reinvestment Act of 2009, otherwise known as the Health Information Technology for Economic and Clinical Health Act (the “HITECH Act”), provides for an investment of almost \$20 billion in public monies for the development of a nationwide health information technology infrastructure (“HITI”). The HITI is intended to improve health care quality, reduce costs and facilitate access to certain information. The HITECH Act also expands the scope and application of the administrative simplification provisions of HIPAA, and its implementing regulation, (i) imposing a written notice obligation upon covered entities for security breaches involving “unsecured” protected health information, (ii) expanding the scope of a provider’s electronic health record disclosure tracking obligations, (iii) substantially limiting the ability of health care providers to sell protected health information without patient authorization, (iv) increasing penalties for violations, and (v) providing for enforcement of violations by State attorneys general. While the effects of the HITECH Act cannot be predicted at this time, the obligations imposed thereunder could have a material adverse effect on the financial condition of the Corporation.

Licensure. The Corporation and its operations are subject to regulation and certification by various federal, state and local government agencies. No assurance can be given as to the effect on future operations of the Corporation of existing laws, regulations and standards for certification or accreditation or of any future changes in such laws, regulations and standards.

Increases in Medical Costs

Because the Corporation is obligated to provide its continuing care contract residents with the right to move to a higher level of care, a deviation from the anticipated mortality rate or medical care requirements of the resident population or substantial unanticipated increases in the cost of such care could have a negative impact on the operations of the Corporation’s Facilities. The undertaking to provide such care is a contractual obligation of the Corporation, and no assurance can be given that the Corporation will have sufficient funds to meet its anticipated obligations. Residents are required to obtain Medicare Part A, Medicare Part B and supplemental insurance satisfactory to the Corporation; however, Medicare does not cover the cost of nursing home care except under certain limited circumstances (including up to 100 days of skilled nursing care following a 3-day qualifying hospital stay). In addition, the cost of providing healthcare services may increase due to increases in salaries paid to nurses and other healthcare personnel and due to shortages in such personnel which may require use of employment agencies.

Malpractice Claims

The operations of the Corporation’s facilities may also be affected by increases in the incidence of litigation against the Corporation or against healthcare providers in general, which would increase insurance premiums and difficulty in obtaining malpractice insurance. It is not possible at this time to determine either the extent to which malpractice coverage will continue to be available to the Corporation or the premiums at which such coverage can be obtained.

Labor Relations

Nonprofit health care providers and their employees are under the jurisdiction of the National Labor Relations Board. At the present time, none of the Corporation’s employees are members of a collective bargaining unit. Unionization of employees or a shortage of qualified professional personnel could cause an increase in payroll costs beyond those projected. The Corporation cannot control the prevailing wage rates in its service area and any increase in such rates will directly affect the costs of their operations.

Nursing Shortage

Recently the healthcare industry has experienced a shortage of nursing and other technical staff, which has resulted in increased costs and lost revenues due to the need to hire agency nursing personnel at higher rates, increased compensation levels, and the inability to use otherwise available beds as a result of staffing shortages. If the shortage continues, it could adversely affect the operations or financial condition of the Corporation.

Risks Related to Tax Exempt-Status

Below-Market Interest Loans. 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 has been 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 residency agreements 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 \$90,000, as annually increased by inflation. In 2006, the threshold amount was \$163,100. The IRS no longer publishes the inflation adjustment under Section 7872(g)(2) because of amendments made to Section 7872 by the Tax Increase Prevention and Reconciliation Act of 2005 and the Tax Relief and Health Care Act of 2006. Management believes that current entrance fees for the independent living units in the Corporation’s CCRCs 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 CCRCs.

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 \$20,000. 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 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) of the Code. Revenue Rulings 61-72 and 72-124 state 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, (3) renders services that minister to the needs of the elderly and relieve hardship or distress. Revenue Ruling 79-18 states 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 states 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.

Tax-Exempt Status. The possible modification or repeal of certain existing federal income or state tax laws or other loss by the Corporation of the present advantages of certain provisions of the federal income or state tax laws could materially and adversely affect the status of the Corporation thereby the revenues of the Corporation. Failure of the Corporation or the Authority to comply with certain requirements of the Code, or adoption of amendments to the Code to restrict the use of tax-exempt bonds for facilities such as those being financed with bond proceeds, could cause interest on the Series 2011 Bonds to be included in the gross income of Bondholders or former Bondholders of such Series 2011 Bonds for federal income tax purposes. In such event, the Bond Indenture does not contain any specific provision for acceleration of the Series 2011 Bonds nor provides that any additional interest will be paid to the owners of the Series 2011 Bonds. See **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Events of Default; Acceleration.”**

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can be, however, no assurance that future changes in the laws and regulations of the federal, state or local governments, or the interpretation of existing or future laws and regulations will not materially and adversely affect the operations and revenues of the Corporation by requiring them to pay income or real estate taxes.

Taxpayer Relief Act of 1997 and Unrelated Business Taxation

The Taxpayer Relief Act of 1997 that includes the following provision which could have an impact on the Corporation.

Passive Income Received from Subsidiary. This tax law tightens the ownership rules for determining whether certain types of income received from subsidiaries are subject to the unrelated business income tax (“UBIT”). Under prior law, tax-exempt organizations were required to pay tax on rents, royalties, annuities, and interest income only if such income was received from a taxable or tax-exempt subsidiary that was at least 80 percent controlled by the tax-exempt organization. Nevertheless, UBIT did not apply if the income came from a “second-tier” subsidiary (i.e., a subsidiary owned by a subsidiary).

Under this tax law, such income is subject to UBIT if the parent organization owns more than 50 percent of the subsidiary, based on voting power or value. In addition, a parent exempt organization will be deemed to control any subsidiary which it controls either directly or indirectly (e.g., as a second-tier subsidiary).

Changes in tax laws regarding not for profit organizations could adversely affect certain of the Corporation's revenues. Recently Congress and the Internal Revenue Service have focused more closely on issues of tax-exemption, such as the scope of activities constituting unrelated business income. Management of the Corporation believes the effect on the Corporation is likely to be de minimis because the management believes its activities that may give rise to such income are insignificant.

Property Taxes; State and Local Tax Exemption

The CCRCs owned by the Corporation are exempt from property taxation except for minor assessments. Budgetary pressures on state and 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.

Until recently, California has not been as active as the IRS in scrutinizing the income tax exemption of exempt organizations. It is possible that legislation may be proposed to strengthen the role of the California Franchise Tax Board and the Attorney General in supervising nonprofit health care providers. It is likely that the loss by the Corporation of federal tax exemption also would trigger a challenge to the state tax exemption of the Corporation. Depending on the circumstances, such event could be adverse and material.

In recent years, state, county, and local taxing authorities have been undertaking audits and reviews of the operations of tax-exempt organizations with respect to their property tax exemption for both real and personal property. In some states, including California, these authorities have interpreted the criteria for exemption more narrowly than in the past, resulting in revocation or denial of exemption. The Corporation expects the majority of its real and personal property to be exempt from property taxes. Investigations or audits could lead to challenges of the property tax exemption with respect to facilities of the Corporation that, if successful, could adversely and materially affect the property tax exemption with respect to certain of the facilities or property of the Corporation.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of not-for-profit corporations. There can be no assurance that future changes in the laws and regulations of federal, state or local governments or interpretations thereof will not materially or adversely affect the operations and financial condition of the Corporation by requiring it to pay income or local property taxes.

Amendments to the Documents

Certain amendments to the Bond Indenture and the Loan Agreement may be made with the consent of the owners of a majority of the principal amount of the Series 2011 Bonds Outstanding under the Bond Indenture. Certain amendments to Deeds of Trust may be made with the consent of the Master Trustee and the Corporation. Such amendments may adversely affect the security of the Bondholders and, with respect to the Deeds of Trust, such percentage may be composed wholly or partially of the holders of additional Parity Debt. See **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – Supplemental Bond Indentures”** and **“SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – Supplements and Amendments to the Loan Agreement.”**

Additional Indebtedness

The Master Indenture permits the Corporation to incur Additional Indebtedness which may be equally and ratably secured with the Series 2011 Obligation and the Series 2000 Obligations. Any such additional parity debt would be entitled to share ratably with the owners of the Series 2011 Bonds and the Series 2000 COPs in any moneys realized from the exercise of remedies in the event of a default. There is no assurance that, despite compliance with the conditions upon which Additional Indebtedness may be incurred at the time such debt is created, the ability of the Corporation to make the necessary payments to repay the Series 2011 Bonds may be materially, adversely affected upon the incurrence of Additional Indebtedness. See **APPENDIX C – “SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Limitations on Encumbrances”** and **“– Limitations of Additional Indebtedness.”**

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 Master 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 their property. If the bankruptcy court so ordered, such property, including accounts receivable and proceeds thereof, could be used for the benefit of the Corporation despite the security interest of the Master Trustee and the Bond 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.

Certain Matters Relating to Enforceability

The effectiveness of the security interests in the Corporation’s Gross Revenues granted in the Master Indenture may be limited by a number of factors, including: (i) provisions prohibiting the direct payment of amounts due to health care providers from Medicare and Medicaid programs to persons other than such providers; (ii) the absence of an express provision permitting assignment of receivables owed to the Corporation under its contracts, and present or future prohibitions against assignment contained in any applicable statutes or regulations; (iii) certain judicial decisions which cast doubt upon the right of the Bond Trustee and the Master Trustee, in the event of the bankruptcy of the Corporation, to collect and retain accounts receivable from Medicare, Medicaid and other governmental programs; (iv) commingling of the proceeds of Gross Revenues with other moneys not subject to the security interest in the Gross Revenues; (v) statutory liens; (vi) rights arising in favor of the United States of America or any agency thereof; (vii) constructive trusts, equitable or other rights impressed or conferred by a federal or state court in the exercise of its equitable jurisdiction; (viii) federal bankruptcy laws or state insolvency laws which may affect the enforceability of the Deeds of Trust or the security interest in

the Gross Revenues of the Corporation which are earned by the Corporation within 90 days or, in certain circumstances with respect to related corporations, within one year preceding and after any effectual institution of bankruptcy proceedings by or against the Corporation, as applicable; (ix) rights of third parties in Gross Revenues converted to cash and not in the possession of the Bond Trustee; and (x) claims that might arise if appropriate financing or continuation statements are not filed or other documents are not executed in accordance with the California Uniform Commercial Code as from time to time in effect. Under the Uniform Commercial Code, such security interest ceases to attach to proceeds of Gross Revenues, e.g., collections of accounts receivable which cannot be traced to a specific account of the Corporation other than the Gross Revenue Fund created under the Master Indenture or otherwise have ceased to be “identifiable cash proceeds.”

There exists, in addition to the foregoing, common law authority and authority under California statutes pursuant to which the California courts may terminate the existence of a not for profit corporation or undertake supervision of its affairs on various grounds, including a finding that such corporation has insufficient assets to carry out its stated charitable purposes or has taken some action which renders it unable to carry out such purposes. Such court action may arise on the court’s own motion pursuant to a petition of the California Attorney General or such other persons who have interests different from those of the general public, pursuant to the common law and statutory power to enforce charitable trusts and to see to the application of their funds to their intended charitable uses.

Lockboxes

The Corporation. Pursuant to the Master Indenture, the Corporation has agreed, for so long as the Series 2011 Obligations are outstanding, that if an event of default involving a failure to pay any installment of interest or principal, or any premium on any Obligation should occur and be continuing, the Corporation will deposit daily the proceeds of its Gross Revenues with the Master Trustee. Such deposits will continue daily until such default is cured or such withdrawn amount is fully replenished. See “**SUMMARY OF PRINCIPAL DOCUMENTS – SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – Pledge of Gross Revenues.**”

It is unclear whether the covenants to deposit the proceeds of the Gross Revenues with the Master Trustee are enforceable. In light of the foregoing and of questions as to limitations on the effectiveness of the security interest granted in such Gross Revenues as described above, no opinion will be expressed by counsel to the Corporation as to the enforceability of such covenant with respect to the required deposits.

Certain Risks Associated with the Deeds of Trust

The Corporation has executed the Deeds of Trust to secure its obligations pursuant to the Master Indenture and with respect to all Obligations, including the Series 2011 Obligation and the Series 2000 Obligations, and with respect to its obligations under the Master Indenture. In the event that there is a default under the Master Indenture, the Bond Indenture, the Loan Agreement, or any other financing document to which the Corporation is a party, the Master Trustee has the right to foreclose on the Property and Collateral under certain circumstances. All amounts collected upon foreclosure of the Property and Collateral pursuant to the Deeds of Trust will be used to pay certain costs and expenses incurred by, or otherwise related to, the foreclosure, the performance of the Master Trustee and/or the beneficiary under the Deeds of Trust, and then to pay amounts owing under the Master Indenture with respect to the Series 2011 Obligation, the Series 2000 Obligations and any future Obligations.

Any valuation of the Property and Collateral 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 Property and Collateral 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 or a weakened market condition could materially change the value of the Property and Collateral. Any reduction in the market value of the Property and Collateral could adversely affect the security available to the owners of the Series 2011 Bonds. There is no assurance that the amount available upon foreclosure of the Property and Collateral after the payment of foreclosure costs will be sufficient to pay the amounts owing by the Corporation with respect to the Series 2011 Obligation, the Series 2000 Obligations and any future Obligations.

In the event of foreclosure, a prospective purchaser of some or all of the Property and Collateral may assign less value to that Property and Collateral than the value of the facilities while owned by the Corporation since such purchaser may not enjoy the favorable financing rates associated with the Series 2011 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 Property and Collateral than nonprofit buyers, then the resale of either of the Property and Collateral after foreclosure may require more time to solicit nonprofit buyers interested in assuming the financing now applicable to the Property and Collateral. In addition, there can be no assurance that any of the facilities could be sold at one hundred percent (100%) of their fair market value in the event of foreclosure. Although the Master Trustee will have available the remedy of foreclosure of the Deeds 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 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 Loan Agreement and with respect to the Series 2011 Obligation, the Series 2000 Obligations and any Additional Obligations.

The Deeds 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 Deeds of Trust. For example, under one statute, a deficiency judgment is barred where the foreclosure is accomplished by means of a nonjudicial trustee's sale, except where the deed of trust is given to secure the payment of bonds authorized or permitted to be issued by the California Commissioner of Corporations. Under the latter (not intended to be applicable in this situation), a deficiency judgment is barred where a foreclosed deed of trust secures certain purchase money obligations. Another statute, commonly known as the "one-action" rule, requires the beneficiary to exhaust the security under the Deeds of Trust by foreclosure and prohibits any personal action against the trust or 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. Finally, a statute related to CCRC regulation, requires that a provider obtain approval of DDS before consummating any sale or transfer of a CCRC and sets forth certain additional requirements either having the new provider assume all the continuing care obligations of the selling provider or the selling provider setting up a trust fund or securing a performance bond to ensure the fulfillment of all its continuing care contract obligations.

In the event that some or all of the Deeds of Trust are actually foreclosed, then, in addition to the customary costs and expenses of operating the maintaining the Property and Collateral, the party or parties succeeding to the interest of the Corporation in the 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 Deeds of Trust, the Master Trustee will be required to conduct a foreclosure sale of the facilities under the Master Indenture and Deeds 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 Deeds 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 Master Trustee’s interest in the Deeds 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 DEEDS OF TRUST UNDER CALIFORNIA LAW, POTENTIAL OWNERS OF THE SERIES 2011 BONDS ARE ADVISED, AND EXPECTED, TO CONSULT WITH AN EXPERT IN THE FIELD BEFORE PURCHASING ANY SERIES 2011 BONDS.

Environmental Matters

Retirement facilities, such as 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 2011 Bonds at the time of issuance will not be lowered or withdrawn at any time, the effect of which could adversely affect the

market price for, and marketability of, the Series 2011 Bonds. See “**DESCRIPTION OF RATINGS**” herein.

Market for Bonds

Subject to prevailing market conditions, the Underwriter intends, but is not obligated, to make a market in the Series 2011 Bonds. There is presently no secondary market for the Series 2011 Bonds and no assurance can be given that a secondary market will develop. Consequently, investors may not be able to resell the Series 2011 Bonds purchased should they need or wish to do so

Other Possible Risk Factors

The occurrence of any of the following events, or other unanticipated events, could adversely affect the operations of the Corporation:

- (1) Inability to control increases in operating costs, including salaries, wages and fringe benefits, supplies and other expenses, given an inability to obtain corresponding increases in revenues from residents whose incomes will largely be fixed;
- (2) Unionization, employee strikes and other adverse labor actions which could result in a substantial increase in expenditures without a corresponding increase in revenues;
- (3) Adoption of other federal, state or local legislation or regulations having an adverse effect on the future operating or financial performance of the Corporation;
- (4) A decline in the population, a change in the age composition of the population or a decline in the economic conditions of the market areas of the Corporation;
- (5) The cost and availability of energy which could, among other things, affect the cost of utilities of the Corporation’s facilities;
- (6) Increased unemployment or other adverse economic conditions in the service areas of the Corporation’s facilities which would increase the proportion of patients who are unable to pay fully for the cost of their care;
- (7) Any increase in the quantity of indigent care provided which is mandated by law or required due to increased needs of the community in order to maintain the charitable status of the Corporation;
- (8) Inflation or other adverse economic conditions;
- (9) Reinstatement or establishment of mandatory governmental wage, rent or price controls;
- (10) Changes in tax, pension, social security or other laws and regulations affecting the provisions of health care, retirement benefits and other services to the elderly;
- (11) Inability to control the diminution of patients’ assets or insurance coverage with the result that the patients’ charges are reimbursed from government reimbursement programs rather than private payments;

(12) The occurrence of natural disasters, including floods and earthquakes, which may damage the facilities of the Corporation, interrupt utility service to the facilities, or otherwise impair the operation and generation of revenues from said facilities;

(13) Scientific and technological advances that could reduce demand for services offered by the Corporation; or

(14) Cost and availability of any insurance, such as malpractice, fire, automobile and general comprehensive liability, that organizations such as the Corporation generally carry.

LITIGATION

Authority

To the knowledge of the Authority, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, governmental agency, public board or body, pending against the Authority seeking to restrain or enjoin the sale, issuance or delivery of the Series 2011 Bonds, or in any way contesting or affecting any proceedings of the Authority taken concerning the sale, issuance or delivery thereof, the pledge or application of any moneys or security provided for the payment of the Series 2011 Bonds, the validity or enforceability of the Bond Indenture, the Loan Agreement or any other documents executed by the Authority in connection with the Series 2011 Bonds, the completeness or accuracy of this Official Statement or the existence or powers of the Authority relating to the sale of the Series 2011 Bonds.

The Corporation

There is no litigation or proceeding pending or, to the knowledge of the Corporation, threatened against the Corporation which (i) seeks to restrain or enjoin the issuance or delivery of the Series 2011 Bonds or the execution or the performance by the Corporation of its obligations under the Loan Agreement or the Series 2011 Obligation, (b) in any way contests or affects the issuance or the validity of the Series 2011 Bonds or the enforceability of the Loan Agreement or the Series 2011 Obligation, or (c) in any way contests the legal existence or powers of the Corporation. There is no litigation or proceeding pending or, to the knowledge of the Corporation, threatened against the Corporation except for (i) litigation being defended by insurance carriers on behalf of the Corporation, the claims in which are entirely within the insurance policy limits of the Corporation, (ii) litigation in which the expected maximum aggregate recovery against the Corporation could be satisfied from the insurance or the reserves maintained by the Corporation or (iii) claims for damages arising in the ordinary course of its operations, none of which is deemed to be material to the operation or condition, financial or otherwise, of the Corporation. There is no litigation pending or, to the knowledge of the Corporation, threatened that might have a material adverse effect upon the operations or financial condition of the Corporation.

LEGAL MATTERS

All legal matters incident to the authorization and validity of the Series 2011 Bonds are subject to the approval of Jones Day, San Francisco, California, Bond Counsel to the Corporation, whose approving opinion will be delivered with the Series 2011 Bonds. Certain legal matters will be passed upon for the Corporation by their counsel, Jones Day, San Francisco, California; and for the Underwriter

by its counsel, Katten Muchin Rosenman LLP, Los Angeles, California and Chicago, Illinois and for the Authority by its special counsel, Sidley Austin LLP, San Francisco, California.

TAX MATTERS

Federal Income Taxation

The Internal Revenue Code of 1986, as amended (the “Code”), contains a number of requirements and restrictions which apply to the Series 2011 Bonds, including investment restrictions, a requirement of periodic payments of arbitrage profits to the United States of America, requirements regarding the timely and proper use of bond proceeds and the facilities financed or refinanced therewith, and certain other matters. The Authority and the Corporation have covenanted to comply with all requirements of the Code that must be satisfied in order for interest on the Series 2011 Bonds be excludible from gross income for federal income tax purposes. Failure to comply with certain of such covenants could cause interest on the Series 2011 Bonds to become includible in gross income for federal income tax purposes retroactively to the date of issuance of the Series 2011 Bonds.

Subject to compliance by the Authority and the Corporation with the above-referenced covenants, under present law, in the opinion of Bond Counsel, interest on the Series 2011 Bonds will not be includible in the gross income of the owners thereof for federal income tax purposes and will not be treated as an item of tax preference in computing the alternative minimum tax imposed on individuals and corporations. Interest on the Series 2011 Bonds will be taken into account, however, as an adjustment used in computing a corporation’s alternative minimum taxable income for purposes of determining the federal alternative minimum tax imposed on certain corporations, as described below. In rendering its opinion, Bond Counsel will rely on certifications of the Corporation with respect to certain material facts solely within the knowledge of the Corporation relating to, among other things, the property financed or refinanced with the proceeds of the Series 2011 Bonds and the application of the proceeds of the Series 2011 Bonds. See **APPENDIX D** for the proposed form of Bond Counsel’s opinion for the Series 2011 Bonds.

The Code includes provisions for an alternative minimum tax (“AMT”) for corporations. The AMT, if any, depends on a corporation’s alternative minimum taxable income (“AMTI”), which is a corporation’s taxable income with certain adjustments. One of the adjustment items used in computing AMTI of a corporation (excluding S corporations, Regulated Investment Companies, Real Estate Investment Trusts and REMICS) is an amount equal to 75% of the excess of such corporation’s “adjusted current earnings” over an amount equal to its AMTI (before such adjustment item and the alternative tax net operating loss deduction). Interest on the Series 2011 Bonds will be included in “adjusted current earnings” in computing a corporation’s alternative minimum taxable income for purposes of determining the federal alternative minimum tax imposed on certain corporations.

Ownership of the Series 2011 Bonds may result in collateral federal income tax consequences to certain taxpayers, including without limitation, financial institutions, certain insurance companies, certain S corporations, and individual recipients of Social Security or Railroad Retirement benefits.

Interest on the Series 2011 Bonds will be taken into account in computing the “branch profits tax” imposed on certain foreign corporations. Under the provisions of Code Section 884, a branch profits tax is levied on the “effectively connected earnings and profits” (“ECEP”) of certain foreign corporations. ECEP includes tax-exempt interest such as interest on the Series 2011 Bonds.

Code Section 265 denies a deduction for interest on indebtedness incurred or continued to purchase or carry tax exempt bonds. Indebtedness may be allocated to tax exempt bonds for this purpose even though not directly traceable to the purchase of those bonds.

Prospective purchasers of the Series 2011 Bonds should consult their tax advisors as to the applicability of any such collateral consequences.

The market value and marketability of the Series 2011 Bonds may be adversely affected by future changes in federal or State of California treatment of interest on the Series 2011 Bonds or by future modifications of the Code or the regulations issued thereunder.

From time to time, there are legislative proposals in Congress which, if enacted, could alter the federal tax treatment described above or adversely affect the market value or marketability of the Series 2011 Bonds. Such proposed legislation includes the "American Jobs Act of 2011" (the "2011 Jobs Act") submitted to Congress by President Obama on September 12, 2011. If enacted as originally proposed, the 2011 Jobs Act would tax a portion of the interest on tax exempt bonds for certain individual taxpayers under the regular income tax or the alternative minimum tax, effective for taxable years beginning on or after January 1, 2013. That provision of the 2011 Jobs Act would apply to bonds issued before that effective date, including the Series 2011 Bonds, as well as to bonds issued on and after that effective date. No prediction is made whether the 2011 Jobs Act will be enacted as originally proposed or whether other legislation will be proposed or enacted affecting the tax treatment of interest on the Series 2011 Bonds. Prospective purchasers of the Series 2011 Bonds are encouraged to consult their own tax advisors regarding any pending or proposed federal legislation, as to which Bond Counsel expresses no view.

California State Taxation

In the opinion of Bond Counsel, under the laws of the State of California as presently enacted and construed, interest on the Series 2011 Bonds is exempt from the Personal Income Tax imposed by the State of California under Sections 17001 through 19802 of the California Revenue and Taxation Code. No opinion will be delivered regarding taxation of interest on the Series 2011 Bonds under any other provisions of California law.

Ownership of the Series 2011 Bonds may result in other state and local tax consequences to certain taxpayers. Bond Counsel expresses no opinion regarding any such collateral consequences arising with respect to the Series 2011 Bonds. Prospective purchasers of the Series 2011 Bonds should consult with their tax advisors regarding the applicability of any state and local taxes.

The state and local tax consequences referred to above or the market value or marketability of the Series 2011 Bonds can be affected by either federal tax legislation or state or local tax legislation. No prediction is made whether the 2011 Jobs Act, if enacted as originally proposed, or other future federal, state or local tax legislation will affect the tax treatment of interest on the Series 2011 Bonds under state or local law or the market value or marketability of the Series 2011 Bonds. Prospective purchasers of the Series 2011 Bonds are encouraged to consult their own tax advisors regarding any pending or proposed federal, state or local legislation, as to which Bond Counsel expresses no view.

Original Issue Discount

The initial public offering price of certain maturities of the Series 2011 Bonds may be less than the principal amount payable at maturity (collectively, the "Discount Bonds"), as set forth on the cover page of this Official Statement. As a result, such Discount Bonds will be considered to be issued

with original issue discount. The difference between the initial public offering price of each maturity of the Discount Bonds, as set forth on the cover page of this Official Statement (assuming it is the first price during the initial offering (the “Issue Price”) at which a substantial amount of such maturity is sold to the public), and the principal amount payable at maturity of the Discount Bonds will be treated as “original issue discount.” With respect to a taxpayer who purchases a Discount Bond in the initial public offering at the Issue Price and who holds such Discount Bond to maturity and, subject to the condition that the Authority and the Corporation comply with the covenants referred to in the first paragraph under the caption “**TAX MATTERS**” above, original issue discount will constitute interest which is not includible in the gross income of the owner of such Discount Bond for federal income tax purposes to the same extent as current interest on the Series 2011 Bonds and such owner will not, under present federal income tax law, realize a taxable capital gain upon payment of such Discount Bond upon maturity.

In general, the original issue discount on each Discount Bond is treated as accruing daily over the term of such Discount Bond on the basis of a constant interest rate compounded on an accrual basis at the end of each accrual period (with straight line interpolation between compounding dates).

Code Section 1288 provides, with respect to tax-exempt obligations such as the Discount Bonds, that the amount of original issue discount accruing each period will be added to the owner’s tax basis for the Discount Bonds. Such adjusted tax basis will be used to determine taxable gain or loss upon disposition of the Discount Bonds (including sale, redemption or payment at maturity). An owner of a Discount Bond who disposes of such Discount Bond prior to maturity should consult such owner’s tax advisor as to the amount of original issue discount accrued over the period held and the amount of taxable gain or loss upon the sale or other disposition of such Discount Bond prior to maturity.

As described above regarding tax-exempt interest, a portion of the original issue discount that accrues in each year to an owner of a Discount Bond may result in certain collateral federal income tax consequences. In the case of a corporation, such portion of the original issue discount will be included in the calculation of the corporation’s branch profits tax liability and its alternative minimum tax liability. A corporate owner of any Discount Bond should be aware that the accrual of original issue discount in each year may result in an alternative minimum tax liability or a branch profits tax liability, although the owner of such Discount Bond will not receive a corresponding cash payment until a later date.

Owners who purchase Discount Bonds in the initial public offering but at a price different than the Issue Price, and owners who purchase Discount Bonds other than in the initial public offering, should consult their own tax advisors with respect to the tax consequences of the ownership of the Discount Bonds.

Owners of Discount Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Discount Bonds. It is possible that under the applicable provisions governing the determination of state or local income taxes, accrued original issue discount on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment until a later year.

Original Issue Premium

The initial public offering price of certain maturities of the Series 2011 Bonds may be greater than the amount payable at maturity (collectively, the “Premium Bonds”), as set forth on the cover page of this Official Statement. To the extent that a purchaser of a Premium Bond acquires a Premium Bond in the initial public offering at a price greater than the principal amount payable at maturity, such excess may be considered “amortizable bond premium” under Code Section 171. In general, (i) any

amortizable bond premium with respect to a Premium Bond must be amortized, (ii) the amount of premium so amortized will reduce the owner's tax basis in such Premium Bond for federal income tax purposes, and (iii) such amortized premium is not deductible from the gross income of the owner for federal income tax purposes. In the case of tax-exempt debt instruments subject to early redemption, the bond premium rules include special rules that impact the period over which the premium is to be amortized. The rate of the amortization of the bond premium and the corresponding reduction in tax basis may result in an owner realizing a taxable gain when such owner's Premium Bond is sold or disposed of for an amount equal to or less than such Premium Bond's original cost. Purchasers of Premium Bonds should consult their own tax advisors as to the computation and treatment of such amortizable bond premium, including, but not limited to, the calculation of gain or loss upon the sale, redemption, maturity, receipt of principal or other disposition of a Premium Bond.

Owners of Premium Bonds should consult their own tax advisors with respect to the state and local tax consequences of owning the Premium Bonds.

FINANCIAL STATEMENTS

The consolidated audited financial statements of the Corporation, as of March 31, 2009, 2010 and 2011 and for the fiscal years then ended were audited by Moss Adams LLP, independent auditors, as stated in their reports included herein, and are included in **APPENDIX B** to this Official Statement. Moss Adams LLP has not been engaged to perform and has not performed, since the date of the reports included herein, any procedures on the audited consolidated financial statements addressed in those reports.

Certain unaudited consolidated financial information of the Obligated Group as of and for the fiscal years ended March 31, 2009, 2010 and 2011 and for the four-month periods ended July 31, 2010 and 2011 is included in **APPENDIX A** hereto. Such unaudited consolidated financial information for the four-month period ended July 31, 2011 is not necessarily indicative of the financial results of the Obligated Group for the fiscal year ending March 31, 2012.

UNDERWRITING

The Underwriter has agreed to purchase the Series 2011 Bonds at an aggregate purchase price of \$60,569,384.85 (representing the aggregate principal amount of the Series 2011 Bonds less a net original issue discount of \$930,865.15 and an Underwriter's discount of \$699,750.00). Pursuant to the purchase contract, the Corporation has agreed to indemnify the Underwriter and the Authority against certain liabilities. The Underwriter reserves the right to join with dealers and other underwriters in offering the Series 2011 Bonds to the public. The obligation of the Underwriter to accept delivery of the Series 2011 Bonds is subject to the various conditions of the purchase contract.

RATINGS

The Series 2011 Bonds have received a long-term rating of "BBB+" from Standard & Poor's, a division of The McGraw Hill Companies, Inc ("Standard & Poor's").

The rating and an explanation of its significance may be obtained from Standard & Poor's. Such rating reflects only the view of Standard & Poor's. The Corporation has furnished Standard & Poor's with certain information and materials relating to the Series 2011 Bonds and its affiliated

organizations that have not been included in this Official Statement. Generally, rating agencies base their ratings on the information and materials so furnished and on investigations, studies, and assumptions by such rating agencies. There is no assurance that a particular rating will be maintained for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the agency originally establishing the rating, circumstances so warrant. Except as set forth below under “**FINANCIAL REPORTING**,” none of the Authority, the Underwriter nor the Corporation has undertaken any responsibility to bring to the attention of the holders of the Series 2011 Bonds any proposed revision or withdrawal of the ratings of the Series 2011 Bonds or to oppose any such proposed revision or withdrawal. Any such change in or withdrawal of such rating could have an adverse effect on the market price of the Series 2011 Bonds.

FINANCIAL REPORTING

Financial Reporting

The Master Indenture requires the Obligated Group Representative provide to the Underwriter, the Master Trustee, the Bond Trustee, the Municipal Securities Rulemaking Board’s (“MSRB”) Electronic Municipal Market Access System or such other securities information repository identified by the Securities and Exchange Commission (“EMMA”), the Authority and all Bondholders owning \$500,000 or more of the Series 2011 Bonds who request in writing (collectively, the “Required Information Recipients”).

(1) Quarterly unaudited financial statements of the Obligated Group no more than 45 days after the completion of each of the first three fiscal quarters and no more than 60 days after the completion of the fourth fiscal quarter, which, as of the date of this Official Statement, is March 31, including a consolidated or consolidating statement of revenues and expenses and statement of cash flows of the Obligated Group during such for the year-to-date period, and a consolidated or consolidating balance sheet as of the end of each such fiscal quarter.

(2) Quarterly information regarding occupancy levels of all of the facilities operated by the Obligated Group by level of care as of the end of each such quarter, including payor mix for nursing care beds.

(3) Within 120 days of the end of each Fiscal Year, an annual audited financial report of the Obligated Group prepared by a firm of certified public accountants, including a consolidated and an unaudited consolidating balance sheet as of the end of such Fiscal Year and a consolidated and an unaudited consolidating statement of changes in fund balances for such Fiscal Year and a consolidated and an unaudited consolidating statement of revenues and expenses and statement of cash flows of the Obligated Group for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing calculations of the Obligated Group’s Long-Term Debt Service Coverage Ratio for said Fiscal Year and a statement that such accountants have no knowledge of any default under the Master Indenture, or if such accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof. These financial statements may include any entities that are not Members of the Obligated Group if they contain as supplemental information a combining or consolidating schedule from which financial information solely relating to the Obligated Group Members may be derived.

(4) On or before the date of delivery of the financial reports referred to in subsections (1) and (3) above, an Officer’s Certificate of the Obligated Group Representative (i) stating

that the Obligated Group is in compliance with all of the terms, provisions and conditions of the Master Indenture or if not, specify all such defaults and the nature thereof, (ii) calculating and certifying the Long-Term Debt Service Coverage Ratio, and (iii) calculating and certifying the Days Cash on Hand.

(5) Summary of the board-approved annual budget.

(6) If the Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year is less than 1.00:1 for any Testing Date as provided in the Master Indenture, the Obligated Group will deliver the financial information and the calculations described in paragraph (a) above on a monthly basis, with the Debt Service Coverage Ratio calculated on a year-to-date basis each month, within 45 days of the end of each month until the Debt Service Coverage Ratio of the Obligated Group is at least 1.00:1.

The Obligated Group Representative shall furnish or cause to be furnished to the Master Trustee (i) a computation of the Parity Debt Service Reserve Requirement and the Pro Rata Portion for each series of DSRF Bonds Outstanding as of each Valuation Date within two Business Days of such Valuation Date and (ii) a computation of the Parity Debt Service Reserve Requirement and the Pro Rata Portion for each series of DSRF Bonds Outstanding as of most recent Valuation Date within two Business Days of any addition to or subtraction from the set of Related Bonds that are designated as DSRF Bonds. Within two Business Days of receiving such computation, the Master Trustee shall furnish or cause to be furnished to each bond trustee for DSRF Bonds computations showing the total amount in the Parity Debt Service Reserve Fund, the Pro Rata Portion allocated to such bond trustee's DSRF Bonds, and the Pro Rata Portion Available to such bond trustee's DSRF Bonds.

The Members also agree that, within 10 days after its receipt thereof, the Obligated Group Representative will file with the Required Information Recipients a copy of each Consultant's report or counsel's opinion required to be prepared under the terms of the Master Indenture.

The Obligated Group Representative shall give prompt written notice of a change of accountants by the Obligated Group to the Master Trustee and each bond trustee. The notice shall state (i) the effective date of such change; (ii) whether there were any unresolved disagreements with the former accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which the accountants claimed would have caused them to refer to the disagreement in a report on the disputed matter, if it was not resolved to their satisfaction; and (iii) such additional information relating thereto as such bond trustee or the Master Trustee may reasonably request.

The Obligated Group Representative may designate a different Fiscal Year for the Members of the Obligated Group by delivering a notice to the Master Trustee designating the first and last day of such new Fiscal Year and whether or not there will be any interim fiscal period (the "Interim Period") of a duration of greater than or less than 12 months preceding such new Fiscal Year. The Members covenant that they will furnish to the Master Trustee and each bond trustee, as soon as practicable after they are available, but in no event more than 120 days after the last day of such Interim Period, a financial report for such Interim Period certified by a firm of independent certified public accountants selected by the Obligated Group Representative covering the operations of the Obligated Group for such Interim Period and containing a consolidated balance sheet as of the end of such Interim Period and a consolidated statement of changes in fund balances and changes in financial position for such Interim Period and a consolidated statement of revenues and expenses for such Interim Period, showing in each case in comparative form the financial figures for the comparable period in the preceding Fiscal Year, together with a separate written statement of the accountants preparing such report containing a calculation of the Obligated Group's Debt Service Coverage Ratio for the Interim Period and a statement that such accountants have obtained no knowledge of any default by any Member in the fulfillment of any of the terms, covenants, provisions or conditions of the Master Indenture, or if such

accountants shall have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof (but such accountants shall not be liable directly or indirectly to anyone for failure to obtain knowledge of any default).

The Obligated Group Representative shall furnish or cause to be furnished to the Master Trustee a computation of the Individual Debt Service Reserve Requirement for each series of DSRF Bonds outstanding as of each Valuation Date, as defined in the Master Indenture, within two (2) Business Days of such date, and the Obligated Group Representative shall update such computation as additional DSRF Bonds are designated in accordance with the Master Indenture. Within two (2) Business Days of receiving such computation, the Master Trustee shall furnish or cause to be furnished to each bond trustee for DSRF Bonds, including the Bond Trustee for the Series 2011 Bonds, computations showing, as applicable, (i) the total amount in the Parity Debt Service Reserve Fund and the amount therefrom available to secure that bond trustee's DSRF Bonds, or (ii) the total amount in the Individual Debt Service Reserve Account for each bond trustee's DSRF Bonds.

CONTINUING DISCLOSURE

Offerings of most municipal securities are subject to Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, as amended.

The Obligated Group

The Corporation has covenanted, on behalf of the Obligated Group, for the benefit of the holders and Beneficial Owners of the Series 2011 Bonds pursuant to a Continuing Disclosure Agreement dated as of October 1, 2011 (the "Continuing Disclosure Agreement") to be executed and delivered by the Corporation, on behalf of the Obligated Group, to provide or cause to be provided each year the financial information and operating data relating to the Obligated Group described below.

(a) As soon as practicable after they are available but in no event more than 45 days after the completion of the first three fiscal quarters or, in no event more than 60 days after the completion of the final fiscal quarter, quarterly management-prepared financial statements, including a consolidated or consolidating statement of revenues and expenses and statement of cash flows of the Obligated Group for the year-to-date period, a consolidated or consolidating balance sheet as of the end of each such fiscal quarter and occupancy levels of all of the facilities operated by the Obligated Group by level of care as of the end of each such quarter including payor mix for nursing care beds, all prepared in reasonable detail and certified, subject to year-end adjustment, by an officer of the Obligated Group Representative, together with an Officer's Certificate (i) stating that the Obligated Group is in compliance with all of the terms, provisions and conditions of the Master Indenture or if not, specify all such defaults and the nature thereof, (ii) calculating and certifying the Long-Term Debt Service Coverage Ratio, and (iii) calculating and certifying the Days Cash on Hand as of the last day of such fiscal quarter.

(b) As soon as practicable after they are available but in no event more than 120 days after the completion of each Fiscal Year, an annual audited financial report of the Obligated Group prepared by a firm of certified public accountants including a consolidated and an unaudited consolidating balance sheet as of the end of such Fiscal Year and a consolidated and an unaudited consolidating statement of changes in fund balances for such Fiscal Year and a consolidated and an unaudited consolidating statement of revenues and expenses and statement of cash flows of the Obligated Group for such Fiscal Year, showing in each case in comparative form the financial figures for the preceding Fiscal Year, together with (i) a separate written statement of the accountants preparing such report that such accountants have no knowledge of any default under the Master Indenture, or if such accountants shall

have obtained knowledge of any such default or defaults, they shall disclose in such statement the default or defaults and the nature thereof and (ii) an Officer's Certificate (A) stating that the Obligated Group is in compliance with all of the terms, provisions and conditions of the Master Indenture or if not, specify all such defaults and the nature thereof, (B) calculating and certifying the Long-Term Debt Service Coverage Ratio, and (C) calculating and certifying the Days Cash on Hand as of the last day of such fiscal year. These financial statements may include any entities that are not Members of the Obligated Group if they contain as supplemental information a combining or consolidating schedule from which financial information solely relating to the Obligated Group Members may be derived. If such audited financial statements are not available by the deadline for filing the Annual Report, it shall be provided when and if available, and unaudited financial statements shall be included in the annual report.

(c) Summary of the board-approved annual budget.

(d) If the Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year is less than 1.00:1 for any Testing Date as provided in the Master Indenture, the Obligated Group will deliver the financial information and the calculations described in paragraph (1) above on a monthly basis, with the Debt Service Coverage Ratio calculated on a year-to-date basis each month, within 45 days of the end of each month until the Debt Service Coverage Ratio of the Obligated Group is at least 1.00:1.

(e) A copy of each Consultant's report or counsel's opinion required to be prepared under the terms of the Master Indenture, a copy of which has been provided to any requesting Bondholder.

The reports and materials described above will be filed by or on behalf of the Obligated Group with EMMA, and with each Beneficial Owner of \$500,000 or more in Series 2011 Bonds who requests such information. In addition, under the Continuing Disclosure Agreement, the Corporation has covenanted, on behalf of the Obligated Group, to provide, or cause to be provided, notice of the occurrence of any of the following events (the "Listed Events") with respect to the Series 2011 Bonds to EMMA in a timely manner and in accordance with the Rule:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Any unscheduled draw on debt service reserves reflecting financial difficulties;
- (4) Any unscheduled draw on credit enhancements reflecting financing difficulties;
- (5) Substitution of credit or liquidity providers or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, notices of proposed issue or other material notices or determinations with respect to the tax status of the Series 2011 Bonds or other material events affecting the tax status of the Series 2011 Bonds;
- (7) Modifications to rights of the security holders, if material;
- (8) Bond calls, if material;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities, if material;

- (11) Tender offers;
- (12) Rating changes;
- (13) Bankruptcy, insolvency, receivership, or similar proceedings of the Corporation;
- (14) The consummation of a merger, consolidation or acquisition involving the Corporation or the sale of all or substantially all of the assets of the Corporation, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- (15) Appointment of a successor or additional trustee, or the change of name of a trustee, if material;
- (16) Any entrance by another entity into the Obligated Group or cessation of any Obligated Group Member from the Obligated Group, if material; and
- (17) Any other listed events that are added to the Rule after the date of the Continuing Disclosure Agreement.

If a Listed Event occurs and the Corporation determines that such Listed Event is material, or if there is no materiality requirement for such Listed Event, the Corporation shall file a notice of such occurrence with EMMA within 10 business days. Notice of Listed Events described in (8) and (9) above need not be given any earlier than the notice (if any) of the underlying event is given to affected Bondholders if it is required pursuant to the Bond Indenture. If the Corporation determines that it failed to give notice as required under the Continuing Disclosure Agreement, it is required to promptly file a notice of such determination in the same manner.

Any or all of such items may be included by specific reference to other documents which previously have been provided to EMMA or filed with the Securities Exchange Commission or the MSRB. If the document incorporated by reference is a final official statement, it must be available from the MSRB. The Corporation shall clearly identify each such other document as incorporated by reference.

In the event of a failure of the Obligated Group to comply with any provision of the Continuing Disclosure Agreement, any holder or Beneficial Owner of Bonds may take such actions as may be necessary and appropriate, including seeking specific performance by court order, to cause the Obligated Group to comply with the obligations under the Continuing Disclosure Agreement. A failure to comply with the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Master Indenture, the Bond Indenture or the Loan Agreement. The sole remedy under the Continuing Disclosure Agreement in the event of any failure of the Obligated Group to comply with the Continuing Disclosure Agreement shall be an action to compel performance, and no person or entity shall be entitled to recover monetary damage thereunder under any circumstances.

MISCELLANEOUS

The summaries or descriptions of provisions of the Series 2011 Bonds, the Loan Agreement, the Bond Indenture, the Deeds of Trust, the Series 2011 Obligation and the Master Indenture and all references to other materials not purported to be quoted in full, are only brief outlines of some of

the provisions thereof and do not purport to summarize or describe all of the provisions thereof. Reference is made to the Series 2011 Bonds, the Loan Agreement, the Bond Indenture, the Deeds of Trust, the Series 2011 Obligation and the Master Indenture, for a full and complete statement of the provisions thereof. Such documents are on file at the offices of the Underwriter and following delivery of the Series 2011 Bonds will be on file at the offices of the Bond Trustee.

So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of such statements will be realized. Neither this Official Statement nor any statement which may have been made orally or in writing is to be construed as a contract with the owners of the Series 2011 Bonds.

It is anticipated that CUSIP identification numbers will be printed on the Series 2011 Bonds, but neither the failure to print such numbers nor any error in the printing of such numbers shall constitute grounds for a failure or refusal by any purchaser thereof to accept delivery of and payment for any Series 2011 Bonds.

The attached **APPENDICES** are integral parts of this Official Statement and must be read together with all of the foregoing statements.

The Corporation has reviewed the information contained herein which relates to it, its affiliates and their respective property and operations, and has approved all such information for use within this Official Statement.

This Official Statement has been duly authorized, executed and delivered by the Authority and the Corporation. The Authority has not, however, prepared nor made any independent investigation of the information contained in this Official Statement except the information under the captions “**THE AUTHORITY**” and “**LITIGATION – Authority.**”

**ABAG FINANCE AUTHORITY FOR NONPROFIT
CORPORATIONS**

By: /s/ Clarke J. Howatt
Authorized Signatory

Approved by:

EPISCOPAL SENIOR COMMUNITIES

By: /s/ Kevin J. Gerber
President and Chief Executive Officer

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APPENDIX A

EPISCOPAL SENIOR COMMUNITIES

The information contained herein as Appendix A
to this Official Statement has been obtained from
Episcopal Senior Communities

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EPISCOPAL SENIOR COMMUNITIES AND RELATED ORGANIZATIONS

History, Mission and Vision

John Tennant Memorial Homes (“JTMH”) was founded in 1963 and opened Canterbury Woods retirement community in Pacific Grove, California on land originally donated to the Episcopal Diocese of California by Margaret Tennant for the purpose of housing retired Episcopal clergy. JTMH subsequently transferred the community to Episcopal Senior Communities (“ESC”), formerly known as Episcopal Homes Foundation, when ESC was formed in 1965. JTMH’s original purpose was to provide housing and related facilities and services for elderly persons on a nonprofit basis. The mission, vision and core values of ESC have expanded to include seniors of all economic means and extends also to persons who are not residents of ESC’s physical communities as set forth below.

ESC Mission Statement

ESC provides housing and services to seniors, supports independence and self-worth, and encourages continued intellectual, physical, social and spiritual growth.

ESC Vision Statement

ESC will be widely known for providing gracious, exceptional service and fiscal stewardship.

ESC Guiding Principles and Core Values

HONOR the heritage of the organization and its relationship with the Episcopal Diocese and its ministry to serve seniors as a nondenominational and nonprofit provider of services and housing.

RESPECT one another as members of the community, whether resident or staff, striving to be collaborative and treat one another with compassion.

EMBRACE the unique characteristics of the individual while building and supporting the needs of each community, dedicated to expanding the diversity of those who live and work within the ESC family.

SERVE with integrity, ethically conducting the business and management of the organization so that it meets current needs as well as plans for the future.

GROW community programs and housing in order to serve seniors of a wide range of financial means.

BUILD the resources and financial capacity of ESC and ESC Foundation and the commitment as good stewards, to assure the organization’s present and future ability to satisfy its stakeholders and achieve its mission.

ESC and Obligated Group

Currently ESC, consisting of five California continuing care retirement communities (“CCRCs”) and the Support Services Office (as defined below), is the only member of the Obligated Group created

under the Master Indenture. The financial and statistical information in this **APPENDIX A** pertains to ESC (the Support Services Office and the CCRCs described in more detail herein). The consolidated audited financial statements of ESC and its affiliates as presented in **APPENDIX B** to this Official Statement include financial information of affiliates of ESC that are not members of the Obligated Group created under the Master Indenture.

ESC directly owns and operates five CCRCs in northern California (see “**ESC Obligated Group Communities**” below). In addition, through its Support Services Office, ESC operates and provides management services to two subsidiary low income senior housing corporations which it sponsors and to JTM Communities and its affiliates. ESC and all of its subordinate affiliates have received determination letters from the Internal Revenue Service (the “IRS”) that they are exempt from federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, as amended (the “Code”) as organizations described in Section 501(c)(3) of the Code.

ESC is the sole corporate member of two California nonprofit public benefit corporations that provide low income senior rental housing in California, Presidio Gate Apartments in San Francisco and Jennings Senior Housing in Santa Rosa. In addition, ESC is the sole corporate member of Episcopal Senior Communities Foundation (“ESC Foundation”) which raises funds and administers charitable deferred gifts on behalf of ESC.

See the organization chart set forth under the heading “**JTM Communities and Affiliates**” below.

ESC IS THE ONLY MEMBER OF THE OBLIGATED GROUP. NONE OF THE OTHER CORPORATIONS OR LIMITED PARTNERSHIPS AFFILIATED WITH ESC HAVE ANY OBLIGATIONS WITH RESPECT TO THE MASTER INDENTURE, THE OBLIGATIONS ISSUED UNDER THE MASTER INDENTURE, THE LOAN AGREEMENT WITH RESPECT TO THE SERIES 2011 BONDS OR THE INSTALLMENT SALES AGREEMENT AND THE INSTALLMENT PURCHASE AGREEMENT WITH RESPECT TO THE SERIES 2000 COPS.

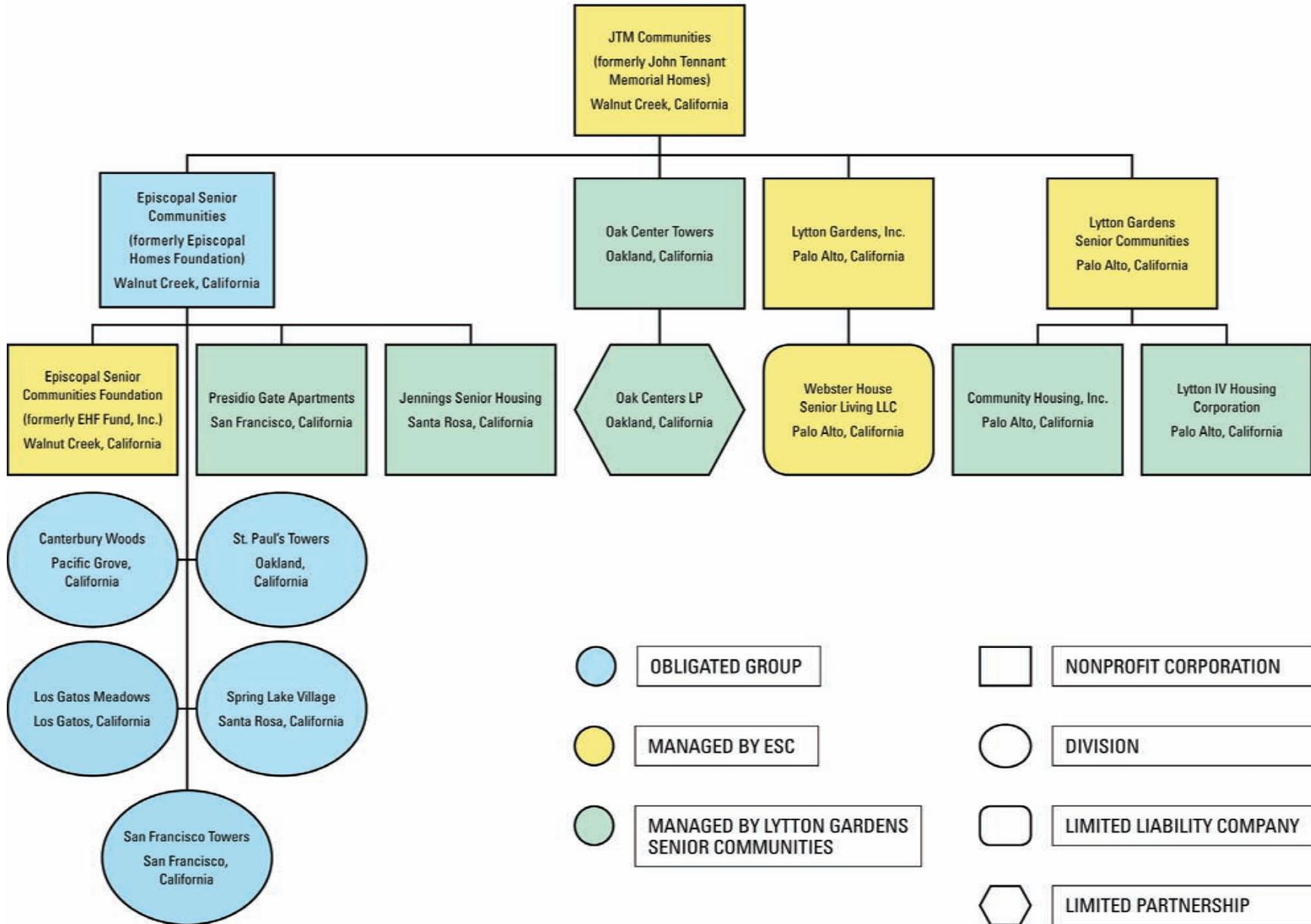
ESC WILL GRANT A MORTGAGE LIEN ON THE LAND AND FACILITIES OF ITS FIVE CCRCs TO THE MASTER TRUSTEE. ESC WILL ALSO GRANT A SECURITY INTEREST IN ITS GROSS REVENUES TO SECURE THE SERIES 2011 BONDS AND THE SERIES 2000 COPS. NO OTHER CORPORATION OR LIMITED PARTNERSHIP HAS PLEDGED ANY OF THEIR ASSETS WITH RESPECT TO THE MASTER INDENTURE, THE OBLIGATIONS ISSUED UNDER THE MASTER INDENTURE OR THE LOAN AGREEMENT WITH RESPECT TO THE SERIES 2011 BONDS OR THE INSTALLMENT SALES AGREEMENT AND THE INSTALLMENT PURCHASE AGREEMENT WITH RESPECT TO THE SERIES 2000 COPS.

JTM Communities and Affiliates

JTM Communities (“JTM”), formerly John Tennant Memorial Homes, is a California nonprofit public benefit corporation, which was incorporated in 1963. JTM was reorganized in 2007 to become the parent corporation of ESC and to facilitate ESC’s growth by expanding market rate communities, affordable retirement housing communities and home and community-based services through development, acquisition and/or affiliation. For more information, see “**DESCRIPTION OF OTHER OPERATIONS – Other JTM Communities.**” JTM and each of its nonprofit affiliates with the exception of a low income housing tax credit limited partnership, have received determination letters from the IRS that they are exempt from federal income taxation under Section 501(a) of the Code as organizations described in Section 501(c)(3) of the Code.

See the organization chart on the following page.

ESC AND AFFILIATES ORGANIZATION CHART



JTM is the sole corporate member of ESC. JTM is also the sole corporate member of Oak Center Towers which is the general partner of Oak Centers, LP, a senior low income housing tax credit limited partnership. Ziegler Lotsoff Capital Management LLC (“ZLCM”), an affiliate of the Underwriter, provides investment advice with respect to approximately \$3,000,000 of Oak Center Towers’ marketable securities. ZLCM receives a fee for managing those assets.

JTM is also the sole corporate member of Lytton Gardens, Inc. which operates a free standing skilled nursing facility in Palo Alto, California and is also the managing member of Webster House Senior Living LLC that owns and operates a continuing care retirement community adjacent to the skilled nursing facility. JTM is the sole corporate member of Lytton Gardens Senior Communities which in turn is the sole corporate member of Community Housing, Inc. and Lytton IV Housing Corporation which are senior affordable housing and assisted living communities in Palo Alto, California.

JTM, Oak Center Towers, Oak Centers, LP, Lytton Gardens, Inc., Webster House Senior Living LLC and Lytton Gardens Senior Communities and its subsidiary corporations, Community Housing Inc. and Lytton IV Housing Corporation, are not included in the consolidated audited financial statements of ESC and its Affiliates presented in **APPENDIX B** to this Official Statement.

JTM AND ITS AFFILIATED CORPORATIONS OTHER THAN ESC HAVE NO OBLIGATIONS WITH RESPECT TO THE MASTER INDENTURE, THE OBLIGATIONS ISSUED UNDER THE MASTER INDENTURE, THE LOAN AGREEMENT WITH RESPECT TO THE SERIES 2011 BONDS OR THE INSTALLMENT SALES AGREEMENT AND THE INSTALLMENT PURCHASE AGREEMENT WITH RESPECT TO THE SERIES 2000 COPS.

GOVERNANCE AND MANAGEMENT

ESC Board of Directors

ESC has a 15-member Board of Directors of which eight, or a majority, are appointed by JTM, six are appointed by ESC and one is appointed by the currently-serving Bishop of the Episcopal Diocese of California. For more information about JTM and its affiliates, see “**JTM COMMUNITIES AND AFFILIATES**” herein. The following table identifies the members of the ESC Board of Directors as of September 15, 2011.

Board Members	Term Expires	Occupation
Sanford Skaggs, Esq., Chair †	2014	Retired Partner, Bingham McCutchen LLP
Joseph Aita, M.D.	2014	Retired Physician and Health Plan Executive
The Reverend Linda Campbell	2013	Episcopalian Priest
Gordon Case †	2012	Retired Executive, Paper Products Industry
Charles Chapman † ‡	2012	Retired Certified Public Accountant and Insurance Executive
Nancy Duranteau	2013	Consultant and Executive, Pacific Gas and Electric
David Gibson, Esq.	2014	Attorney, Private Practice
Glenn Jones †	2014	Retired Certified Public Accountant and Executive, High Technology Industry
William Mason †	2013	Retired Hospital Executive
William Peters, Esq. †	2012	Attorney, Gordon & Rees LLP
Baxter Rice	2012	Consultant, Alcoholic Beverage Industry
Sue Roderick, Ph.D. †	2012	Retired Executive, Senior Living Industry
Helen Sause, Bishop's Representative †	ex officio	Retired Director, San Francisco Redevelopment Agency
Tim Schultz	2013	Chief Financial Officer, Lundberg Family Farms
Ellen Clarkson	2014	Retired Social Worker, Resident of Canterbury Woods

† Member of the ESC Executive Committee.

‡ Member of the JTM Audit Committee.

The ESC Board meets quarterly and its Executive Committee meets at least quarterly between Board meetings and otherwise as needed. The Board is organized into the following committees to focus and supervise various aspects of ESC's operations: Finance, Planning, Board Development, Quality First and Investment Committees.

ESC Management

The following is an overview of ESC's senior management team along with biographies of the key members of management at the CCRCs.

Kevin J. Gerber, *President and Chief Executive Officer* (age 56). Prior to joining ESC in 2005, Mr. Gerber held the position of President and Chief Executive Officer of The Episcopal Home Communities in Alhambra, California. Mr. Gerber also served as Vice President, Operations of The Internext Group (now Front Porch), Burbank, California and held a number of positions at California Lutheran Homes from 1987 until 1999, including Chief Operating Officer. He graduated with a M.P.A. in Health Services Administration from the University of Southern California; holds a certificate in Long-Term Care Administration and received his B.S. in Business Administration from the University of Minnesota, Minneapolis. He has served several terms as a Director of the California Association of Homes and Services for the Aging (now known as Aging Services of California), and as a member of the House of Delegates of American Association of Homes and Services for the Aging. Mr. Gerber serves in the same capacity for JTM.

Marilyn S. Kennedy, *Chief Operating Officer* (age 60). Ms. Kennedy joined ESC in 2006. Prior to that, she spent three years at Eskaton as a CCRC Executive Director before being promoted to Vice

President of Operations. Before Eskaton, she worked for Southern California Presbyterian Homes for 18 years. While at Southern California Presbyterian Homes, she held the positions of Continuing Care Executive Director, Director of Affordable Housing and Vice President of Assisted Living and Home and Community Based Services. She is licensed in California as a Nursing Home Administrator and is certified as a Residential Care Facilities for the Elderly (“RCFE”) Administrator. Ms. Kennedy has served several terms on the Aging Services of California Board of Directors. Ms. Kennedy received her B.A. in Elementary Education from the University of Illinois at Chicago. She obtained her M.P.A., Long Term Care Administration and received a Certification in Gerontology from the University of Arizona. Ms. Kennedy serves in the same capacity for JTM.

William C. Tobin, *General Counsel and Chief Risk Officer* (age 66). Mr. Tobin joined ESC as its Chief Financial Officer and General Counsel in July, 2004. Prior to joining ESC, he served for four years as the Chief Financial Officer of East County Medical Group, which was the largest independent practice association in east Contra Costa County, California. Previously, Mr. Tobin served for five years as the Chief Financial Officer and then as the Chief Administrative Officer and General Counsel of East Bay Medical Network which was an integrated healthcare delivery system comprised of nine premier East Bay hospitals and medical groups contracting with nine commercial and two senior Health Maintenance Organizations and representing approximately 800 primary care and specialist physicians. For the previous fourteen years, Mr. Tobin maintained a private law practice that provided legal, financial and other consulting services primarily to medical professionals and medical groups. Mr. Tobin received his B.S. in Accounting from the University of San Francisco, an M.B.A. degree from the University of Utah while in the Air Force and his J.D. degree from Pacific McGeorge School of Law. Mr. Tobin serves in the same capacity for JTM.

Diana Jamison, *Chief Financial Officer* (age 48). Ms. Jamison joined ESC in December 2007 and has held the position of Assistant Controller, Director of Finance, and currently serves as the Chief Financial Officer. Ms. Jamison graduated from California State University, East Bay where she earned a B.S. in Business Management with an emphasis in Accounting. Ms. Jamison is a member of the Executive Management Team focusing on strategic planning and forecasting as well as managing the finance department where she oversees a staff of ten. Prior to joining ESC, Ms. Jamison spent six years with Elder Care Alliance, a not for profit senior living organization where she first held the position of Controller and was later promoted to Chief Financial Officer. Ms. Jamison serves in the same capacity for JTM.

Dee Ann Campbell, *Senior Vice President, Organizational Advancement* (age 59). Ms. Campbell joined ESC in 1994 as marketing director during the development and pre-sales/ pre-construction phase of San Francisco Towers. She assumed the position of Corporate Vice President in 1995. Prior to joining ESC, she spent ten years at RJRNabisco, Inc.’s food division headquartered in San Francisco, California at Del Monte Foods. She held a series of consumer marketing and communication assignments, including Marketing Services Director, Communications Vice President and Vice President of Corporate Relations. Prior to Del Monte, she worked for several recognized advertising agencies located in San Francisco and in Dallas. She is an alumna of the University of Oklahoma, and extended her management training and educational studies at both New York University and Columbia University. Ms. Campbell serves in the same capacity for JTM.

Dorene Mahoney, *Vice President, Human Relations* (age 58). Ms. Mahoney has over 30 years of experience in the human resources field. Her career has alternated between roles delivering human resources services as an employee within for-profit and non-profit organizations, and as an outside consultant to businesses in many industries on discrete projects. As a national seminar presenter for 11 years, she also trained human resources professionals throughout the United States on establishing human resources programs within the context of prevailing labor laws. Before joining ESC in May 2011, Ms. Mahoney was the Vice President of Human Resources and Customer Services for a \$200 million health

maintenance organization with 80,000 members. She has served on three non-profit boards, as a turn-around specialist for one, a founding member for another, and coach and adviser to the third. Ms. Mahoney received her B.S. from Fresno State University with a double major in Business Administration and Criminology, and her Masters degree in Psychology from Sonoma State University.

Gery Yearout, *Vice President, Affordable Housing* (age 68). Ms. Yearout has more than 30 years of experience in healthcare administration. She joined Lytton Gardens in 1996 and oversees the operations in the assisted living and residential services. Since 2007, she has also served as the Vice President of Affordable Housing for ESC, overseeing all affordable housing operations. Immediately prior to joining Lytton Gardens, she served for five years as a regional administrator for a large East Coast rehabilitation hospital and healthcare company. Earlier in her career, she worked in early intervention helping to develop a national model of state and federally supported services for children three years old and younger. Ms. Yearout has a B.S. degree from Connecticut College and completed her Ph.D. at the University of Zurich and at New York University. She is also licensed as a physical therapist and a RCFE administrator. She has authored multiple articles and is a frequent speaker on healthcare issues.

Tracy Powell, *Vice President, Home and Community-Based Services* (age 54). Ms. Powell joined ESC in 1999 as Communications Coordinator leading the self study for ESC's initial accreditation from the Commission on Accreditation of Rehabilitation Facilities—Continuing Care Accreditation Commission. Promoted in 2001 to Director of Outreach Services, she initiated the employee English as a Second Language program and the Senior Produce Markets, now in place in 13 sites. In 2008 she was promoted to Vice President. She supports programs and services to ESC's affordable housing community residents and oversees three community programs that serve over 2,500 non-resident seniors through Senior Resources, Senior Produce Markets and Senior Center Without Walls. She received her B.A. from the University of California, Berkeley.

Norma Brambilla, *Executive Director, Canterbury Woods* (age 59). Ms. Brambilla joined Canterbury Woods in 1992, beginning as Director of Nursing before being promoted to Assistant Administrator. In 2004 she was named Executive Director. Her career began as a Nursing Supervisor at a small acute specialty hospital in Southern California. She is a registered nurse and received her B.A. at the University of California, Santa Barbara and an M.P.H. at the University of California, Los Angeles. She is a member of Aging Services of California's Health Committee.

Christopher Ichien, *Executive Director, St. Paul's Towers* (age 31). Mr. Ichien began his career at St. Paul's Towers as Assistant Executive Director in 2007; he was promoted to Executive Director in 2008. His previous experience includes eight years at the Terraces of Los Gatos, beginning as a waiter and ending his tenure there as Director of Resident Services. He received his B.A. at California State University, Chico and his M.A. in Gerontology at San Francisco State University. He was selected to be a participant in the 2012 Leading Age Leadership Academy.

Christina Heany, *Executive Director, Los Gatos Meadows* (age 66). Ms. Heany has been at Los Gatos Meadows since January 2010. She was previously the executive director of Royal Oaks Manor, a continuing care retirement community in Southern California, for 15 years. She has a B.A. in Sociology, is a licensed nursing home administrator and holds an RCFE administrator certification. Among other community services, she is a member of the Los Gatos Morning Rotary, a former president of the Duarte, California Chamber of Commerce, a founding member of the Duarte Route 66 Parade Committee, a founding member of Duarte/Monrovia Rebuilding Together and the current secretary of the Silicon Valley Village Board.

Sharon York, *Executive Director, Spring Lake Village* (age 58). Ms. York was named Spring Lake Village's Executive Director in 2005. She has over twenty years' experience in senior living and

has previously served as a Director of Nursing, a Skilled and Assisted Living Administrator and an Executive Director. She holds a B.S. in Nursing from The College of New Jersey and an M.S. in Organizational Development from the University of Pennsylvania. She has presented on a variety of topics at conferences held by the American Association of Homes and Services for the Aging and the New Jersey Association of Non-Profit Homes for the Aging.

June Connelly, *Executive Director, San Francisco Towers* (age 51). Ms. Connelly began her tenure as Executive Director of San Francisco Towers in August 2011. Before moving to San Francisco, she had been Executive Director of Las Ventanas in Las Vegas since 2006. Prior to joining Las Ventanas, Connelly served as executive director for Eskaton Senior Residences and Services in Sacramento, California where she was responsible for working in challenging communities to build teams, raising the standards of service at the communities and handling marketing and sales. She earned her M.B.A. from National University in California and her M.D. from Shanghai University in China.

JTM Board of Directors

JTM is governed by a Board of Directors of seven persons, four of whom are elected by JTM, one of whom is elected by ESC, one of whom is appointed by the currently-serving Bishop of the Episcopal Diocese of California, and one of whom is the currently serving chairman of the Lytton Gardens Senior Communities Board of Directors. Its current board members are as follows:

Board Members	Term Expires	Occupation
Peter Dunkel, Chair	2013	Retired Executive, Crown Zellerbach
Alfred Kenrick	–	Vice President, Wells Fargo Bank
Anne Burns Johnson	2014	Consultant and Former Chief Executive Officer of Aging Services of California
Lydia Tan	2013	Executive Vice President, The Related Companies
John Tornquist ‡	–	Retired Executive, Aon Corporation
Carl Wiuff ‡	2011	Retired Executive, JC Penney Corporation
Ann Wright	2012	Retired Executive, Design Response

‡ Member of the JTM Audit Committee.

The JTM Board of Directors meets quarterly or more frequently as the need arises. The Board has appointed the Audit Committee which serves as the audit committee for all of JTM’s affiliated nonprofit corporations in accordance with California statutes.

JTM Management

The following officers hold similar positions with ESC. See “**GOVERNANCE AND MANAGEMENT – ESC Management**,” above for their biographical information

Kevin J. Gerber, *President and Chief Executive Officer.*

Marilyn S. Kennedy, *Chief Operating Officer.*

William C. Tobin, *General Counsel and Chief Risk Officer.*

Diana Jamison, *Chief Financial Officer.*

Dee Ann Campbell, *Senior Vice President, Organizational Advancement.*

ESC Foundation Board of Directors

ESC Foundation is governed by a five member board of trustees (the “Foundation Board”) all of whom are appointed by ESC. For more information about ESC Foundation, see “**EPISCOPAL SENIOR COMMUNITIES AND RELATED ORGANIZATIONS–ESC and Obligated Group**” herein. The following are the current members of the Foundation Board.

Board Members	Term Expires	Occupation
Gordon Case, Chair	2014	Retired Executive, Paper Industry
Elaine Betts	2014	Retired Headmistress, Dana Hall School, Wellesley, Massachusetts
David Gibson	2014	Attorney, Private Practice
Baxter Rice	2014	Attorney and Consultant
Ralph Romberg	2013	Retired Executive, Neiman Marcus

ESC Foundation Management

The following officers hold similar positions with ESC. See “**GOVERNANCE AND MANAGEMENT – ESC Management,**” above for their biographical information.

Kevin J. Gerber, President and Chief Executive Officer.

William C. Tobin, General Counsel and Chief Risk Officer.

Diana Jamison, Chief Financial Officer.

Dee Ann Campbell, Senior Vice President, Organizational Advancement.

ESC FACILITIES

ESC Support Services Office

ESC conducts its affairs and manages its communities and facilities from leased office space in Walnut Creek, California, where it employs approximately 35 personnel. Information technology, legal, finance and accounting functions are centralized in the Support Services Office. Other departments that provide services and oversight for ESC, its communities and its affiliates include general administration, sales and marketing, human resources, facilities management, fund raising, home and community based services and affordable housing administration. ESC conducts administrative meetings, often in conjunction with quarterly Board meetings, at which time executive directors gather with other corporate executives to review the status of company operations, policies and procedures and to focus on continuous improvement initiatives.

ESC Obligated Group Communities

ESC owns and operates five CCRCs in northern California (the “Obligated Group Communities”), one each in the counties of Monterey, Santa Clara, Alameda and Santa Rosa and one in the city and county of San Francisco. The CCRCs consist of residential apartments varying in size from studio to two-bedroom apartments and villas or cottages. The CCRC residents live independently upon moving in and can receive increasing levels of assistance in the activities of daily living and/or health care as needed. The CCRCs also include assisted living for residents requiring certain assistance in activities of daily living and, in one CCRC community, memory support suites where specialized programs and

care for cognitive impairment are offered. If even higher levels of medical care are necessary, residents are transferred to the CCRC's health care center either on a temporary or permanent basis. If a single resident or the second of a couple permanently transfers to the health care center, their apartment becomes available for re-occupancy. See "LEVELS OF CARE" herein for more detail of what services are provided at each level of care.

A summary table displaying the mix of living accommodations in each of the Obligated Group Communities follows.

OBLIGATED GROUP COMMUNITIES

Name of Community	Location	Year Opened	Number of Apartments/Beds				Total Apartments/ Beds
			Independent Living Apartments	Assisted Living Apartments	Memory Support Suites	Health Care Center Beds	
Canterbury Woods	Pacific Grove, California	1965	145	5	-	24	174
St. Paul's Towers	Oakland, California	1966	208	16	-	43	267
Los Gatos Meadows	Los Gatos, California	1971	122	25	10	39	196
Spring Lake Village	Santa Rosa, California	1986	276	24	-	70	370
San Francisco Towers	San Francisco, California	1997	246	12	-	55	313
Total			997	82	10	231	1,320

Source: ESC records.

The following is a brief description of the history and facilities of each of ESC's five CCRCs. Each of these CCRC's and their campuses will be subject to a deed of trust securing ESC's obligations under the Master Indenture. For a description of the program contracts available at each of the CCRCs, see "RESIDENCE AGREEMENTS" herein. For a map and photographs showing each of the communities, see the inside cover of this Official Statement.

Canterbury Woods, Your place nestled on the coast. Located in the quaint town of Pacific Grove on the Monterey peninsula and situated on a seven-acre campus, Canterbury Woods, the first of ESC's communities, sits just a few blocks from the Pacific Ocean, the landmark Lovers Point and the historic light house at Point Pinos. The campus includes 145 independent living accommodations. A small assisted living unit of five rooms was added in 1985 adjacent to the skilled nursing unit that accommodates 24 licensed beds. Canterbury Woods is a small community that offers both the type A and type C contracts. The key competitors of Canterbury Woods, Carmel Valley Manor and Forest Hill Manor, have previously offered type A contracts. As of September 1, 2011, only Carmel Valley offered that contract type exclusively.

St. Paul's Towers, Making you feel right, at home. A 23-story urban high rise community situated on 1.5 acres built in 1966, St. Paul's Towers appeals primarily to East Bay seniors who are well traveled, educated professionals, many of whom are associated with the nearby University of California, Berkeley. A short walk from Lake Merritt and with easy access to Bay Area Rapid Transit (BART) and other Bay Area transit options, the community site is in a bustling neighborhood that continues to experience gentrification, residential growth and a superior quality of life for those who choose to live in the East Bay. St. Paul's offers a wide range of floor plans in its 208 independent living accommodations, each with views. The building opened in 1966 without an assisted living unit. In 1992, the third floor residential apartments were converted to serve as 16 assisted living apartments configured in studio and one bedroom styles. The skilled nursing unit is on the 22nd floor and is licensed for 43 beds. The community now offers incoming residents the choice of the type A and type C contracts. The competitive communities to St. Paul's Towers have historically offered only type C contracts.

Los Gatos Meadows, Living well. Los Gatos Meadows opened in 1971 and is located within walking distance of old town Los Gatos. It is situated on 11 acres on the hillside above a charming downtown that enjoys great weather and excellent shopping and dining. The community is centrally located in Santa Clara County with access to metropolitan San Jose, the Silicon Valley and the beach at Santa Cruz. The community offers 122 independent living apartments, 25 assisted living apartments in two buildings adjacent to the main building, along with 39 skilled beds and seven memory care rooms that have a 10-person capacity. The community began offering the month-to-month rental agreement exclusively in the summer of 2007 and now markets healthcare capacity to nonresidents.

Spring Lake Village, Your life. better. The largest ESC community, Spring Lake Village, opened in 1986. This 28-acre campus enjoys a Sonoma County address and wine country weather, with access to San Francisco just over the Golden Gate Bridge. Historic Santa Rosa, Napa and Sonoma wineries, parks with lakes and hiking trails and an easy trip to beaches on the coast are all nearby. There are 276 independent living residences with a skilled nursing care center capacity of 70 licensed beds and 24 assisted living accommodations within the existing campus. The one-story cottages and two-story apartment buildings are all in craftsman style architecture. The community offers both type A and type C contracts and is one of only two CCRCs in Sonoma County.

ESC is currently in a master planning process (the "Plan") to renovate and expand the Spring Lake Village campus, which would require significant financing. Approximately \$10,000,000 of the proceeds of the Series 2011 Bonds will be used to reimburse ESC for pre-development costs of the Plan, including architectural and engineering consulting, environmental impact report and land use consulting, and other related fees and costs. As currently envisioned, the Plan provides for the construction of 62 new, larger cottage and villa independent living units on land adjacent to the current community to meet current market demand. The Plan also anticipates the renovation of some of the 24 current assisted living units and associated common areas into 11 memory support suites and 24 assisted living units, replacing the current auditorium and adding a swimming pool. The Village Center would also be updated and reconfigured to provide multiple dining venues as well as additional and more appropriate activity and administration spaces.

In the fall of 2011, the Plan calls for a full scale marketing and pre-sales campaign to be launched with respect to the additional independent living units. Given sufficient demand; acceptable general economic, real estate and financial market conditions; favorable capital market conditions and interest rate environment; and an acceptable guaranteed maximum price construction contract, ESC may incur significant additional debt to carry out the Plan as early as the fall of 2012.

San Francisco Towers, The life you want, in the city you love. The organization's most recently developed community, which opened in the fall of 1997, sits in the heart of San Francisco at the corner of Pine and Van Ness on 1.5 acres. The architecturally gracious building, known by some as the

Versailles on Van Ness, occupies a city block and is 12 stories in height. San Francisco Towers is the community of choice for seniors who want to remain in the city and live in a neighborhood with easy access to the symphony, theaters, fine dining and the many cultural benefits offered. There are 246 independent living accommodations, a 55-bed skilled nursing unit and 12 assisted living rooms. The community offers new residents the choice of either the type A or the type C contract.

Historical Occupancy of Obligated Group Communities

The table below and on the following page shows historical occupancy of the Obligated Group Communities by level of care as of March 31, 2009, 2010 and 2011.

Historical Occupancy by Level of Care

	Fiscal Year 2011 Units/Beds	Average Occupancy for the Fiscal Year Ended March 31,		
		2009 ⁽¹⁾	2010	2011
Canterbury Woods				
Independent Living	145	93.2%	93.2%	93.2%
Assisted Living	5	100.0%	100.0%	100.0%
Skilled Nursing Facility	24	75.0%	75.0%	75.0%
	174	90.9%	90.9%	90.9%
St. Paul's Towers				
Independent Living	208	80.3%	81.7%	84.2%
Assisted Living	16	84.4%	87.5%	93.8%
Skilled Nursing Facility	43	88.4%	86.0%	81.4%
	267	81.8%	82.7%	84.3%
Los Gatos Meadows				
Independent Living	122	82.9%	78.9%	86.9%
Assisted Living	25	100.0%	100.0%	88.5%
Skilled Nursing Facility	39	79.5%	84.6%	82.1%
Memory Care	10	N/A	N/A	50.0%
	196	82.8%	80.8%	84.3%
Spring Lake Village				
Independent Living	276	92.1%	90.4%	88.2%
Assisted Living	24	76.0%	83.3%	75.0%
Skilled Nursing Facility	70	74.3%	72.9%	84.3%
	370	87.7%	86.6%	86.6%
San Francisco Towers				
Independent Living	246	94.7%	93.1%	93.5%
Assisted Living	12	100.0%	91.7%	91.7%
Skilled Nursing Facility	55	69.1%	67.3%	67.3%
	313	90.4%	88.5%	88.8%

	Fiscal Year 2011 Units/Beds	Average Occupancy for the Fiscal Year Ended March 31,		
		2009 ⁽¹⁾	2010	2011
Total ESC				
Independent Living	997	89.1%	88.0%	89.2%
Assisted Living	82	86.9%	89.1%	86.7%
Skilled Nursing Facility	231	76.6%	76.2%	78.4%
Memory Care	10	N/A	N/A	50.0%
	1,320	86.8%	86.0%	86.9%

Source: ESC Records.

⁽¹⁾ Average occupancy information for the fiscal year ended March 31, 2009 is unavailable. The information shown is as of March 31, 2009.

LEVELS OF CARE

All of the Obligated Group CCRCs provide a continuum of care from residential living, assisted living through skilled nursing in the health care centers. In addition, Los Gatos Meadows provides memory support in the newly designed “Maggie’s Place,” which has a total capacity of ten persons in seven rooms. The levels of care available in the CCRCs are described below.

Independent Living

Independent living is appropriate for persons who are capable of functioning independently in their apartments or who require minimal assistance with the activities of daily living. Except for those on a month-to-month rental contract, residents pay an entrance fee when they first occupy an apartment and a monthly care fee is charged for the remainder of their residency. All independent living apartments are licensed by the California Department of Social Services (“DSS”) as Residential Care Facilities for the Elderly (“RCFEs”). Basic services include the apartment accommodations including a refrigerator, range or oven, garbage disposal, dishwasher, washer and dryer (not available in all apartments), utilities, housekeeping, laundry, maintenance and repairs, activities, common areas, transportation, parking and observation and access to three meals per day (optional meal programs range from one to three meals per day).

Assisted Living

Assisted living care is appropriate for persons who are no longer capable of living independently. Generally, these residents are ambulatory but require assistance with one or more activities of daily living such as dressing, eating or medication management. This level of care is staffed 24 hours per day and three meals per day are provided. All assisted living apartments are licensed RCFEs. Additional charges may apply depending on the resident’s contract type and these charges are not eligible for reimbursement from Medicare.

Memory Support

Memory support is appropriate for residents who need special attention from trained staff for the treatment of dementia or cognitive impairment. Memory support programs provide appropriate activities and care including assistance with activities of daily living and include three meals a day. Staff is trained to meet the needs of residents in the dementia care areas. All memory support apartments are licensed RCFEs. Additional charges may apply depending on the resident’s contract type and these services are not eligible for reimbursement under Medicare.

Health Care

Skilled nursing care is available for residents who require the daily attention of a professional nursing staff 24 hours per day and/or who require rehabilitation services. Additional charges may apply depending on the resident's contract type and Medicare reimbursement is available under certain conditions.

Payor Mix for Health Care Centers

The following table shows the payor mix in the health care centers providing skilled nursing at the Obligated Group Communities (excluding memory support) as a percentage of the total occupancy from each health care center for the three fiscal years ended March 31, 2011.

Community	Source of Payment	For the fiscal years ended March 31,		
		2009	2010	2011
Canterbury Woods	Medicare	46%	39%	45%
	Private Pay	54%	61%	55%
	Other Managed Care	0%	0%	0%
St. Paul's Towers	Medicare	64%	66%	73%
	Private Pay	26%	25%	24%
	Other Managed Care	10%	9%	3%
Los Gatos Meadows	Medicare	25%	30%	66%
	Private Pay	75%	68%	33%
	Other Managed Care	0%	2%	1%
Spring Lake Village	Medicare	61%	73%	71%
	Private Pay	37%	23%	26%
	Other Managed Care	2%	4%	3%
San Francisco Towers	Medicare	43%	29%	67%
	Private Pay	54%	67%	30%
	Other Managed Care	3%	4%	3%

Source: ESC records.

RESIDENCE AGREEMENTS

ESC offers three types of residence agreements at the Obligated Group Communities. The most prevalent current contract is a type A continuing care agreement (sometimes known as "Non-repayable Program") with an entrance fee that is prorated over 60 months in the case of death or voluntary departure. After 60 months of residency, no portion of the entrance fee is repayable. The type A contract includes a provision that the monthly care fee does not increase as a result of moving to a higher level of

care. A similar contract was offered prior to 2010 that provided for no repayable portion of the entrance fee in the event of death. That contract is not currently offered but still constitutes 81% of ESC's total contracts.

The second agreement is known as a type C contract (sometimes known as "Repayable Program"), and was first used by ESC in 2010. A type C continuing care agreement has an entrance fee; however, 90% of the entrance fee is always repayable upon resale of the unit. The type C contract provides that the monthly care fee increases as a resident moves to higher levels of care.

The third agreement is the month-to-month rental program (the "Month-to-Month Program"). Under the month-to-month rental program, the resident does not receive preferential access to assisted living or health care services and the monthly service fee is higher. These contracts are only available in special circumstances. However, the month-to-month rental contract has been the only contract offered at Los Gatos Meadows since July 2007. ESC moved to the month-to-month rental contract at Los Gatos Meadows in anticipation of a community redevelopment plan that called for the introduction of memory support apartments and programs and the conversion of two independent living buildings. The plan has tripled the number of assisted living apartments. As of March 31, 2011, there were 100 non-repayable type A contract holders in Los Gatos Meadows.

The contract forms in use have been approved by the California Department of Social Services. See "**LICENSURE AND ACCREDITATION.**"

Services

In exchange for the payment of an entrance fee and ongoing monthly care fees, a resident is entitled to the exclusive use of an assigned independent living apartment and receives certain specified services. Services provided include: (i) all utilities except telephone and cable television services; (ii) access to three meals per day (optional meal programs range from one to three meals per day); (iii) regularly scheduled housekeeping; (iv) bath and bed linen laundry and changing bed linens; (v) maintenance and repairs of the apartment unit; (vi) a variety of activities and programs; (vii) access to common areas; (viii) one designated open or covered parking space; (ix) storage space; (x) maintenance of all common areas and equipment; (xi) scheduled local transportation; and (xii) monitoring of emergency alert systems. Additional services such as additional resident meals, guest meals, personal laundry service, additional storage space, housekeeping and transportation are available for additional charges.

Each Resident is also entitled to receive basic nursing care at the outpatient clinic during regularly scheduled hours or at the CCRC's health care center 24 hours per day or upon a physician's written order. Assisted living services or nursing services are charged at the applicable rates for such services.

The following table presents the contract distribution for the residents of the Obligated Group Communities for all levels of care as of July 31, 2011.

Contract Distribution by Community

Community	Non-Repayable Type A Contract	90% Repayable Type C Contract	Month-to-Month	Total
Canterbury Woods	144	0	1	145
St. Paul's Towers	184	33	1	218
Los Gatos Meadows	100	0	54	154
Spring Lake Village	263	30	5	298
San Francisco Towers	246	6	1	253
Total	937	69	62	1,068
Percentage of Total	88%	6%	6%	100%

Entrance Fees, Monthly Service Fees and Deposits

Entrance fees and monthly care fees are based on the size and location of the independent living apartment. The monthly care fees are also based on single or double occupancy and, for existing residents, are adjusted annually in accordance with the relevant statutes and based on projected costs, prior year per-capita costs and economic indicators. Monthly care fees were increased 5.15%, 3.82%, 3.99% and 4.15% on April 1, 2008, 2009, 2010 and 2011, respectively. Entrance fees and monthly fees for new entrants are adjusted annually to reflect general economic conditions, occupancy levels and other market factors. In some cases, entrance fees at all communities have been reduced in the 5-15% range over the last 24 months in order to support occupancy in light of real estate and financial market conditions.

The range of 2012 entrance fees and the 2012 monthly service fees for the various apartments and beds in the Obligated Group Communities are set forth in the table describing ESC and its competitors under “**MARKETING AND COMPETITION**”.

Termination of Residence Agreements

Under California law, continuing care contracts may be cancelled by either party, without cause, by giving written notice within the cancellation period which is 90 days from the date of the resident's initial occupancy. Entrance fees are fully repayable to residents whose contracts are terminated during the cancellation period. In the case of a death or cancellation of the contract after the cancellation period, the unamortized portion of the non-repayable type A contract entrance fee is repayable based on an amortization schedule of 60 months (declining at the approximate rate of 1.7% for each month of occupancy). In the case of double occupancy, no entrance fee repayment is due until the death or other termination of the contract by the second occupant.

Admission Criteria

ESC operates the Obligated Group Communities on a nondiscriminatory basis to all persons regardless of race, color, religion, sexual orientation, national origin or ancestry. Residents must be 62 years of age and pass a financial evaluation and health assessment in order to qualify for entrance into a community. Applicants must substantiate their financial condition and provide medical records prior to entering the community. Residents must be eligible for Medicare Part A and Part B or equivalent coverage to ensure that they have the ability to meet the cost of medical expenses. Residents must agree to cooperate with the community and to apply for all federal, state, municipal or other governmental medical/hospitalization insurance for which resident is eligible.

MARKETING AND COMPETITION

Consumer marketing plans for the individual communities are site-specific and integrated in a process led by ESC's Vice President of Marketing and Communications. The individual marketing plans include the creative input of three Bay Area communication agency resources that specialize in development of: (1) advertising, direct mail, web and special events; (2) public relations; and (3) communication collateral materials.

Marketing plans and sales goals are initiated and developed for each site based on occupancy goals for the fiscal year, the need to generate and refresh the pool of prospective leads; the current and projected vacancy levels, and anticipated turnover. Pricing of entrance fees and monthly fees is evaluated based on contract type and is affected by the competitive market pricing.

Each community has a dedicated sales and marketing team with established sales activity metrics which are reported and discussed weekly within the ESC extended leadership meeting. Quarterly sales training meetings for the entire team are convened by the Senior Director of Sales. Sales compensation includes a base salary and an incentive program that is adjusted annually. The community sales staff, under the guidance of ESC's Senior Director of Sales, is charged with the responsibility for demonstrating a thorough understanding of their market as well as documenting facts relative to their competition. This includes an understanding of competitive contract offerings; their service package; current pricing of entry fee and monthly rates; their community and their competitors' market positioning; and vacancy levels.

ESC communities enjoy a well established reputation as premium communities with residents including many business leaders and volunteers in their greater community. The locations of the communities within northern California enhance the appeal to prospective residents and support the system-wide theme of "My Life Here".

The following table identifies competitive communities and provides information about those communities relative to their market areas.

ESC and Competitors in Each Market								
Community	1 Bedroom Monthly Fee	1 Bedroom Entrance Fee	Average 1 Bedroom Square Feet	2 Bedroom Monthly Fee	2 Bedroom Entrance Fee	Average 2 Bedroom Square Feet	2nd Person Entrance Fee	2nd Person Monthly Fee
Los Gatos Meadows	\$4,545	NA	645	\$5,650	NA	1015	NA	\$875
<i>Key competitors: (All Monthly Rentals)</i>								
Chateau Cupertino	\$2,525	NA	500	\$3,645	NA	750	NA	\$500
Atria Willow Glen	\$3,495	NA	590	\$3,795	NA	750	NA	\$850
Merrill Garden- Willow Glen	\$3,575	NA	620	\$4,955	NA	911	NA	\$850
Canterbury Woods	\$4,230	Type A \$203,500- \$310,000	730	\$5,410	Type A \$405,000- \$510,000	800	\$30,000	\$2,660
		Type C \$254,400- \$360,000			Type C \$506,250- \$637,500			
<i>Key Competitors: CCRCs</i>								
Forest Hill Manor (Type C)	\$2,883	\$115,600- \$270,100	600	\$3,321	\$287,150- \$387,500	760	\$0	\$1,218
Carmel Valley Manor (Type A)	\$3,472	\$195,975- \$275,900	630	\$3,472	\$286,275- \$335,225	855	\$40,000	\$1,352

Community	1 Bedroom Monthly Fee	1 Bedroom Entrance Fee	Average 1 Bedroom Square Feet	2 Bedroom Monthly Fee	2 Bedroom Entrance Fee	Average 2 Bedroom Square Feet	2nd Person Entrance Fee	2nd Person Monthly Fee
San Francisco Towers	\$4,130	Type A \$340,100- \$496,300	670	\$5,360	Type A \$519,500- \$770,100	974	\$30,000	\$2,385
		Type C \$442,100- \$645,200			Type C \$675,400- \$877,900			
The Sequoias (Type A & C)	\$3,694	\$172,300- \$350,000	665	\$5,000	\$287,800- \$777,777	979	\$30,000	\$1,722
Vi By Hyatt (Type A/ 80% repayable)	\$3,688	\$669,300- 1,045,500	851	\$4,741	\$1,186,800 - \$4,989,300	1245	\$30,000	\$1,737
The Carlisle (Type C- equity)	\$3,618	\$199,000- \$445,000	690	\$4,628	\$524,450- 1,259,625	994	NA	\$1,088
Spring Lake Village								
	\$3,280	Type A \$217,000- \$373,000	750	\$3,840	Type A \$525,000- \$548,000	1020	NA	\$780
		Type C \$189,00- \$327,000			Type C \$460,000- \$477,000			
<i>Key competitors: CCRCs</i>								
Varena (Type C repayable 100-80-50)	\$3,195	\$282,000- \$398,000	857	\$3,739	\$321,000- \$1,500,000	1,432	NA	\$900
Tamalpais* (Type A & C)	\$3,209	\$162,000- \$592,000	700	\$4,906	\$322,000- \$929,000	1,100	NA	\$1,100

Community	1 Bedroom Monthly Fee	1 Bedroom Entrance Fee	Average 1 Bedroom Square Feet	2 Bedroom Monthly Fee	2 Bedroom Entrance Fee	Average 2 Bedroom Square Feet	2nd Person Entrance Fee	2nd Person Monthly Fee
St. Paul's Towers	\$3,392	Type A \$117,500- \$325,000	772	\$4,212	Type A \$271,100- \$630,300	986	\$30,000	\$1,695
		Type C \$100,000- \$299,800			Type C \$204,500- \$649,900			
<i>Key competitors: CCRCs</i>								
Piedmont Gardens (80% repayable)	\$2,544	\$80,000- \$123,375	695	\$4,859	\$140,000- \$266,000	875	NA	\$840
**Lake Park (Type C)	\$2,649	\$96,400- \$150,152	675	\$3,578	\$265,700- \$700,000	950	NA	\$1,210
Cardinal Point/ Oakmont (Type C)	\$3,675	\$159,350- \$399,500	720	\$3,750	\$349,500- \$649,500	920	NA	\$900
Grand Lakes Gardens (Type C & rentals)	\$2,343	\$66,000- \$132,000	685	\$3,321	\$80,000- \$256,000	930	NA	\$760

* Type C entry fee is -20% shown and monthly fee is -\$350/person.

** Current rates were not available; rates shown are from 2009.

DESCRIPTION OF OTHER OPERATIONS

Other JTM Communities

The following table identifies affiliated communities controlled by ESC and JTM. None of the affiliated communities in the table below will have any obligations under the Master Indenture, the obligations issued under the Master Indenture, the Loan Agreement with respect to the Series 2011 Bonds or the Installment Sales Agreement and the Installment Purchase Agreement with respect to the Series 2000 COPs.

JTM Non-Obligated Group Communities

Community	Type	Location	Independent Living Apartments	Assisted Living Apartments	Memory Support	Skilled Nursing Facility
Webster House	CCRC	Palo Alto, California	36	5	--	--
Lytton Gardens, Inc.	Skilled Nursing Facility	Palo Alto, California	--	--	--	145
Presidio Gate Apartments	Affordable Housing	San Francisco, California	55	--	--	--
Oak Center Towers	Affordable Housing	Oakland, California	195	--	--	--
Jennings Senior Housing	Affordable Housing	Santa Rosa, California	55	--	--	--
Community Housing, Inc.	Affordable Housing	Palo Alto, California	270	50	--	--
Lytton IV Housing Corp.	Affordable Housing	Palo Alto, California	55	--	--	--
Total			611	55	--	145

Source: ESC Records.

Home and Community Based Services

In addition to providing financial assistance to the residents of its market rate communities, ESC is also committed to providing services to residents of the broader general community. As a nonprofit corporation, ESC continues to devote resources for the benefit of its residents and the larger community. The following table identifies the resources that ESC has deployed in these two categories as part of its dedication to its status as a public benefit charity.

Public Benefit Support

Category	Fiscal Year Ended March 31,		
	2009	2010	2011
Resident Financial Assistance	\$648,000	\$767,000	\$1,008,000
Community Service Programs	846,000	812,000	886,000
Total	\$1,494,000	\$1,579,000	\$1,894,000

Source: ESC Records

Community service programs include the following:

Senior Resources. Begun over 30 years ago as a source of information and referral for seniors, the Senior Resources program has undertaken a broader mission to identify needs and create or partner with others to create innovative programs for seniors. Examples of such programs are bi-weekly exercise classes, emergency support to seniors when discharged from the hospital, health fairs, distributing healthy meals for seniors in need, weekly activities for senior women, performing simple chores for senior homeowners, emergency safety net funding for rent and food to desperate seniors, providing a volunteer transportation program, daily lunches for homeless seniors, assistance for homeless seniors to purchase their prescription medications, friendly visitor service to lonely seniors and various educational workshops. Many of these programs serve some of the most frail populations and are supported by a growing and trained volunteer base.

Senior Center Without Walls. The Senior Center Without Walls program targets frail seniors who can no longer comfortably leave their homes by conducting various activities via free telephone conference calls. The program offers over 70 weekly activities, friendly conversations, classes and support groups which are aimed at addressing the physical and emotional isolation which is often experienced by homebound seniors. This program won the 2010 Jefferson Award for Public Service.

Senior Produce Markets. The Senior Produce Markets program began more than 10 years ago and provides high quality fresh fruit and vegetables to seniors at affordable prices on a weekly basis in 15 different markets located at senior centers, affordable housing communities and churches across northern California. The markets are supported by corporate sponsors, fruit and produce purveyors, and over 30 incredibly dedicated and committed volunteers. Side benefits of the produce markets include meaningful senior volunteer opportunities, a safe and friendly atmosphere that encourages socializing and promotion of healthy eating and nutritional education.

FINANCIAL INFORMATION

The following unaudited condensed financial information for the Obligated Group for each of the three years ended March 31, 2009, 2010 and 2011 has been prepared by management from the financial records of ESC.

The following unaudited information should be read in conjunction with the consolidated financial statements and related notes that are included in **APPENDIX B** to this Official Statement. In addition to information about the Obligated Group, the consolidated financial statements in **APPENDIX B** include financial information of affiliates of ESC that are not Obligated Group Members. For the year ended March 30, 2011, the Obligated Group generated 96% of the revenues of ESC and its affiliates, and the net assets of the Obligated Group represented 87% of the net assets of ESC and its affiliates as of March 30, 2011.

Summary Statement of Activities of the Obligated Group

The following table is an unaudited summary statement of activities of the Obligated Group for the three years ended March 31, 2009, 2010 and 2011 and for the four-month periods ended July 31, 2010 and 2011.

(in thousands)	The Obligated Group's Statement of Activities				
	Fiscal Year ended March 31,			Four Months Ended July 31,	
	2009	2010	2011	2010	2011
CHANGES IN UNRESTRICTED NET ASSETS					
Revenues and gains					
Resident fees	\$49,649	\$51,105	\$51,745	\$17,267	\$18,616
Amortization of deferred revenue from entrance fees	18,867	20,029	20,547	6,257	7,336
Other	18,425	18,470	21,977	6,912	7,577
Total revenues and gains	86,941	89,604	94,269	30,436	33,529
Expenses					
Operating expenses	68,683	68,825	72,144	23,892	24,606
Depreciation and amortization	14,101	14,631	15,043	4,955	5,102
Interest	2,880	3,954	3,647	1,363	1,176
Total expenses	85,664	87,410	90,834	30,210	30,884
INCOME BEFORE INVESTMENT INCOME AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS	1,277	2,194	3,435	226	2,645
Investment income (loss)					
Investment income	2,614	2,047	2,392	555	542
Net realized gain/(loss) on investments	(7,988)	13,114	(1,063)	(204)	(31)
Total investment income (loss)	(5,374)	15,161	1,329	351	511
NET INCOME (LOSS)	(4,097)	17,355	4,764	577	3,156
Net unrealized gain/(loss) on investments	(14,900)	570	5,853	(831)	(41)
Income (loss) on intangible asset	0	(1,351)	300	0	0
Effect of adoption of FAS 158	(305)	0	0	0	0
Change in minimum pension liability	(6,671)	(520)	163	0	0
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(\$25,973)	\$16,054	\$11,080	(\$254)	\$3,115

Summary Statement of Financial Position of the Obligated Group

The following table is an unaudited summary of financial position of the Obligated Group as of March 31, 2009, 2010 and 2011 and as of July 31, 2010 and 2011.

The Obligated Group's Statement of Financial Position

(in thousands)	As of March 31,			As of July 31,	
	2009	2010	2011	2010	2011
ASSETS					
Current assets:					
Cash and equivalents	\$1,293	\$65,357	\$10,831	\$6,217	\$17,510
Assets held by bond indenture for current debt service	7,794	8,068	8,343	1,455	8,117
Marketable securities	50,631	663	64,657	57,078	64,771
Note and accounts receivables (net)	13,827	13,394	10,018	14,064	7,747
Prepaid expenses and other assets	1,424	1,122	951	918	823
Total current assets	74,968	88,603	94,800	79,732	98,968
Assets whose use is limited:					
Assets held by bond indenture and restricted for debt service	23,017	22,868	23,083	18,626	18,754
Less portion available to satisfy current debt service	(7,794)	(8,068)	(8,343)	(1,455)	(8,117)
Total long-term assets whose use is limited	15,223	14,800	14,740	17,171	10,637
Property, plant and equipment	359,442	364,473	364,976	366,612	368,125
Less accumulated depreciation	(151,131)	(165,691)	(171,155)	(170,646)	(176,258)
Net property, plant and equipment	208,311	198,782	193,821	195,966	191,867
Deferred charges and other non-current assets	8,349	10,846	11,215	11,239	11,685
JTM note receivable	10,000	10,000	10,000	10,000	10,000
TOTAL ASSETS	\$316,851	\$323,031	\$324,576	\$314,108	\$323,157
LIABILITIES AND NET ASSETS					
Current liabilities:					
Current portion of long-term debt	6,865	29,735	28,875	23,720	29,195
Accrued interest	1,065	877	786	276	230
Other current liabilities	12,841	11,615	10,801	9,144	10,272
Total current liabilities	20,771	42,227	40,462	33,140	39,697
Accrued retirement benefits	8,932	9,207	6,252	8,077	6,027
Long-term debt	89,352	59,740	53,527	59,781	46,913
Deferred revenues from entrance fees	154,640	152,851	153,527	153,411	156,610
Deferred revenues from investment contract	2,566	2,228	1,907	2,121	1,805
Other long term liabilities	0	133	1,176	1,187	1,265
Total liabilities	276,261	266,386	256,851	257,717	252,317
Total unrestricted net assets	40,590	56,645	67,725	56,391	70,840
TOTAL LIABILITIES AND NET ASSETS	\$316,851	\$323,031	\$324,576	\$314,108	\$323,157

Debt Service Coverage Ratios

The following table presents coverage of historical maximum annual debt service of the Obligated Group for the three years ended March 31, 2011. It also shows coverage of pro forma maximum annual debt service assuming issuance of the Series 2011 Bonds and the refunding of the Series 1998 COPs.

Historical and Pro Forma Maximum Annual Debt Service Coverage Ratio

(in thousands)	Fiscal Year ended March 31,		
	2009	2010	2011
Change to unrestricted net assets	(\$25,973)	\$16,054	\$11,080
Less:			
Amortization of deferred revenues	18,867	20,029	20,547
Unrealized gain (loss) on investment	(14,900)	570	5,853
Effect of adoption of FAS 158	(305)	0	0
Change in minimum pension liability	(6,671)	(520)	163
Amortization of forward sale	355	338	321
Add:			
Net proceeds from entrance fees	19,874	21,921	21,419
Depreciation and amortization	14,101	14,631	15,043
Interest expense	2,880	3,954	3,647
Net income available for debt service	\$13,536	\$36,143	\$24,305
Maximum Annual Debt Service – Series 1998 COPs and Series 2000 COPs	\$11,592	\$11,592	\$11,592
Historical Maximum Annual Debt Service coverage ratio	1.17 ⁽¹⁾	3.12	2.10
Pro Forma Maximum Annual Debt Service coverage ratio ⁽²⁾	2.03	5.42	3.65
Minimum Maximum Annual Debt Service coverage ratio under the 1998 and 2000 documents	1.20	1.20	1.20
Minimum Actual Debt Service Coverage Ratio per Master Indenture ⁽³⁾			1.20

⁽¹⁾ As required by the 1998 and 2000 Installment Sale Agreements, ESC engaged an independent consultant in early 2009 and implemented recommendations in order to achieve the covenant requirement of 1.20 the following fiscal year.

⁽²⁾ The pro forma maximum annual debt service coverage ratios are based on maximum annual debt service of \$6,663,698, including the Series 2000 COPs (at an assumed all-in interest rate, including letter of credit related fees, of 4.00%) and assuming issuance of the Series 2011 Bonds and the refunding of the Series 1998 COPs.

⁽³⁾ The debt service coverage ratio required by the Master Indenture is based on Income Available for Debt Service compared to Annual Debt Service, as described in “INTRODUCTION - Certain Covenants under the Master Indenture - *Rate Covenant*” in the forepart of this Official Statement.

Liquidity

The following table is a summary of the Days Cash on Hand of the Obligated Group as of March 31, 2009, 2010 and 2011 and as of July 31, 2010 and 2011.

Days Cash on Hand

(in thousands)	As of March 31,			As of July 31,	
	2009	2010	2011	2010	2011
Cash and cash equivalents	\$1,293	\$65,357	\$10,831	\$6,217	\$17,510
Marketable securities and investments	50,631	663	64,657	57,078	64,771
Total unrestricted cash and investments	51,924	66,020	75,488	63,295	82,281
Cash operating expenses					
Operating expense	85,664	87,410	90,834	30,210	30,884
Net assets released from restriction	1,533	1,628	0	0	0
Community lease expense	0	0	(36)	0	(14)
Total Operating Expenses	87,197	89,038	90,798	30,210	30,870
Less:					
Community outreach	0	0	886	277	290
Fund development	0	0	516	170	204
Depreciation and amortization	14,101	14,631	15,043	4,955	5,102
Pre-development costs write-off	0	1,068	0	0	0
Bond issuance expense	256	253	167	56	56
Total cash operating expenses	72,840	73,087	74,186	24,752	25,218
Daily cash expenses	200	200	203	203	207
Days cash on hand	260	330	371	312	398
Minimum Days Cash on Hand ⁽¹⁾	—	—	—	—	—

⁽¹⁾ Under the 1998 and 2000 Installment Sale Agreements, there are no days cash on hand liquidity covenants. Under the Master Indenture, the proposed minimum Days Cash on Hand requirement is 125 days.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS

The information below is an analysis of the results of the operations of the Obligated Group. The Obligated Group is not audited separately from ESC and its affiliates, so the information is based upon unaudited information prepared by management. See the supplemental consolidating schedules included with the audited consolidated financial statements of ESC and its Affiliates attached as **APPENDIX B** to this Official Statement.

Results of Operations of the Obligated Group for the Four-Month Period Ended July 31, 2011 Compared to the Four-Month Period Ended July 31, 2010

Total revenue for the four-month period ended July 31, 2011 was \$33,529,000, an increase of 10.2% over revenue of \$30,436,000 for the four-month period ended July 31, 2010. The increase in revenues in the four-month period ended July 2011 was largely the result of annual resident service fee increases of approximately 4.15%, increased occupancy, and rebates for utilities of \$500,000.

Total investment income increased by \$160,000 to \$511,000 for the four-month period ended July 2011 compared to \$351,000 during the four-month period ended July 2010. The increase is due primarily to the difference in realized losses on investment of \$31,000 for the four-month period ended July 2011 from losses of \$204,000 in the four-month period ended July 2010.

Total operating expenses for the four-month period ended July 2011 were \$30,884,000, an increase of 2.2% over the four-month period ended July 2010 expenses of \$30,210,000. This \$674,000 increase was driven by a 2.5% annual salary increase.

Depreciation expense increased 3.0% to \$5,102,000 in the four-month period ended July 2011 from \$4,955,000 in the four-month period ended July 2010. This increase was a result of new capital spending.

The Obligated Group's net assets increased \$14,449,000 to \$70,840,000 at July 31, 2011, compared to \$56,391,000 at July 31, 2010.

Results of Operations of the Obligated Group for the Year Ended March 31, 2011 Compared to the Year Ended March 31, 2010

Total resident fee revenue for the fiscal year ended March 31, 2011 ("FY 2011") was \$51,745,000, an increase of 1.3% over revenue of \$51,105,000 for the fiscal year ended March 31, 2010 ("FY 2010"). Nursing center revenue for the FY 2011 was \$20,076,000, an increase of 19.9% over revenue of \$16,740,000 for FY 2010. The increase in revenues in FY 2011 was largely the result of annual resident service fee increases of approximately 4% and increased Medicare days and acuity.

Investment income of \$2,392,000 for FY 2011 was a \$345,000 increase from the \$2,047,000 generated during FY 2010. Realized losses on investment of \$1,063,000 for FY 2011 was a \$14,177,000 reduction from the \$13,114,000 gain generated during FY 2010. Furthermore, unrealized gains on investments of \$5,853,000 for FY 2011 was a \$5,283,000 increase from the unrealized gains of \$570,000 for FY 2010.

Total operating expenses for FY 2011 were \$90,834,000, an increase of 3.9% over FY 2010 expenses of \$87,410,000. This \$3.4 million increase was driven by increased employee expenses. These increases in employee expense were the result of a 1.5% annual salary increase and 13.4% increase in employee benefits.

Depreciation expense increased 2.8% to \$15,043,000 in FY 2011 from \$14,631,000 in FY 2010. This increase was a result of new capital spending.

These revenue and expense changes together with a \$502,000 decrease in net cash entry fees received led to a decrease in income available for debt service of \$11,838,000, from \$36,143,000 for FY 2010 to \$24,305,000 for FY 2011. The overall effect on the Debt Service Coverage Ratio was a decrease from 3.12x for FY 2010 to 2.10x for FY 2011.

The Obligated Group's net assets increased \$11,080,000 to \$67,725,000 at March 31, 2011, compared to \$56,654,000 at March 31, 2010.

The Obligated Group's unrestricted cash and investments increased \$9,468,000 from \$66,020,000 at March 31, 2010 to \$75,488,000 at March 31, 2011. The Obligated Group's Days Cash on Hand increased approximately 41 days in FY 2011, from 330 days to 371 days.

Results of Operations of the Obligated Group for the Year Ended March 31, 2010 Compared to the Year Ended March 31, 2009

The Obligated Group's resident fee revenue for the fiscal year ended March 31, 2010 ("FY 2010") was \$51,105,000, an increase of 2.9% over revenue of \$49,649,000 for the fiscal year ended March 31, 2009 ("FY 2009"). The increase in revenues in FY 2010 was largely the result of annual resident service fee increases of approximately 3.8%.

Investment income of \$2,047,000 for FY 2010 was a \$567,000 reduction from the \$2,614,000 generated during FY 2009. Realized gains on investments of \$13,114,000 for FY 2010 was a \$21,102,000 increase from the \$7,988,000 loss generated during FY 2009. Furthermore, unrealized gains on investments during FY 2010 amounted to \$570,000 compared to unrealized losses for FY 2009 of \$14,900,000. This increase in investment performance was primarily the result of the sale of the investment portfolio at the end of FY 2010 which was then invested on the advice of new managers at the beginning of FY 2011.

Total operating expenses for FY 2010 were \$87,410,000, an increase of 2.0% over FY 2009 expenses of \$85,664,000 for an increase of \$1.7 million, of which \$1.1 million was due to employee benefit costs.

Depreciation expenses increased 3.8% to \$14,631,000 in FY 2010 from \$14,101,000 in FY 2009. This increase was a result of new capital spending, including the Los Gatos Meadows restructuring.

These revenue and expense changes together with a \$2,047,000 increase in net cash entry fees received led to an increase in income available for debt service of \$22,607,000, from \$13,536,000 for FY 2009 to \$36,143,000 for FY 2010. The overall effect on the Debt Service Coverage Ratio was an increase from 1.17x for FY 2009 to 3.12x for FY 2010.

The Obligated Group's net assets increased \$16,055,000 to \$56,645,000 at March 31, 2010, compared to \$40,590,000 at March 31, 2009.

The Obligated Group's unrestricted cash and investments increased \$14,096,000 from \$51,924,000 at March 31, 2009 to \$66,020,000 at March 31, 2010. The Obligated Group's Days Cash on Hand increased approximately 70 days in FY 2010, from 260 days to 330 days.

INSURANCE

The Obligated Group currently carries property insurance (excluding earthquake), automobile, professional liability, commercial general liability, directors and officers, employment practice liability, and crime and fiduciary insurance in such amounts as management believes is adequate and customarily carried by similar institutions in the State of California. ESC is a California qualified self-insurer for workers compensation but maintains an excess coverage policy to protect against catastrophic claims. Professional liability insurance and commercial general insurance is procured through participation in a reciprocal risk retention group in which ESC holds less than a 5% interest. All policies are issued on a claims-made basis.

EMPLOYEES

As of July 31, 2011, ESC had approximately 980 employees. None of ESC's employees are represented by a union. ESC considers its relationship with its employees to be good. ESC was named one of the best places in the Bay Area to work by the San Francisco Business Times and the Silicon Valley/San Jose Business Times in 2010 and 2011.

LICENSURE AND ACCREDITATION

Licensure

Each Obligated Group Community is licensed by the California DSS as an RCFE. The basis for licensure is DSS's determination that the Obligated Group Communities have complied with specific requirements of applicable statutes and regulations. In addition, ESC holds a Certificate of Authority from DSS's Continuing Care Contracts Branch to enter into continuing care contracts.

Memberships

ESC maintains active memberships in LeadingAge (formerly, the American Association of Homes and Services for the Aging) and Aging Services of California.

Accreditation

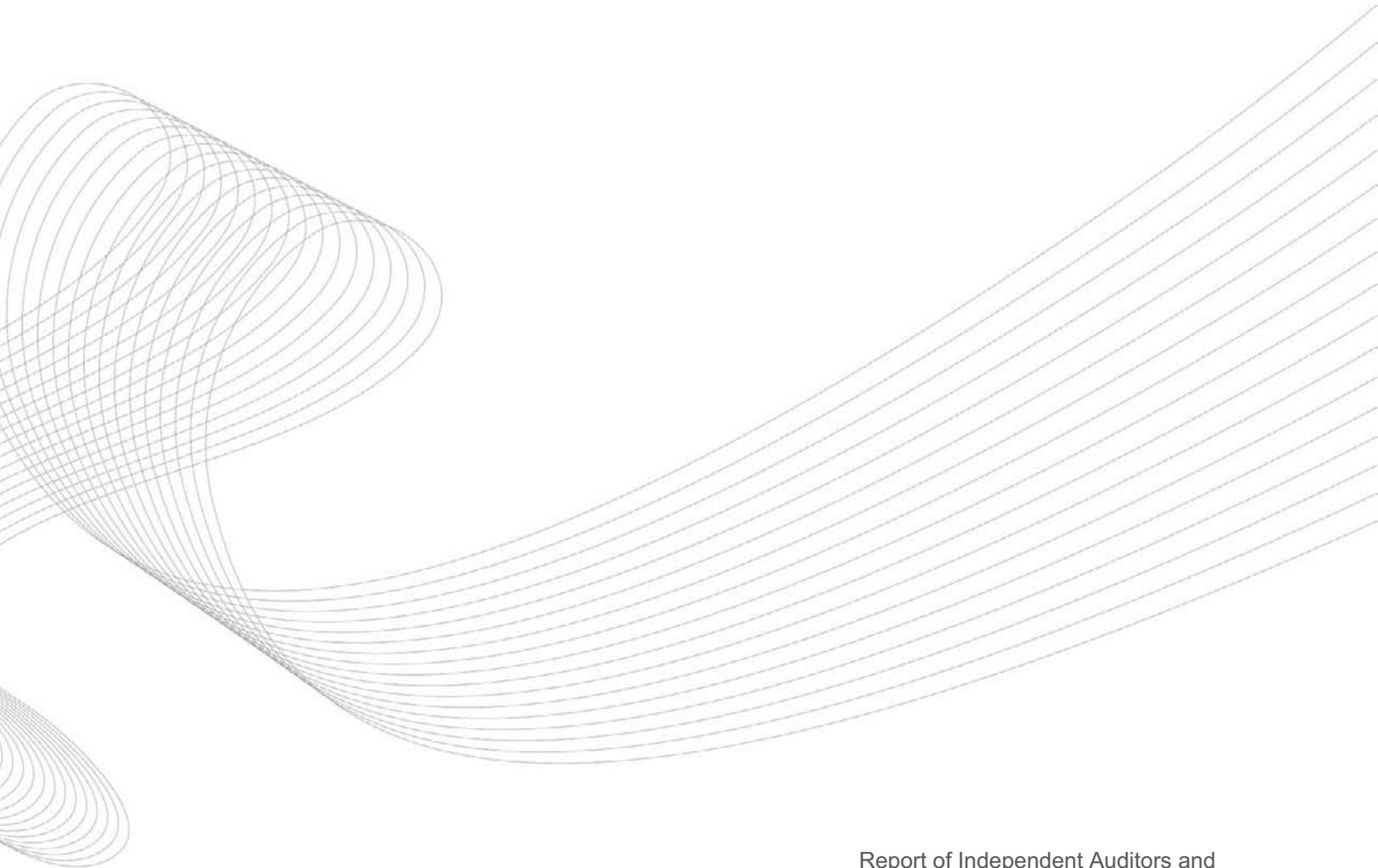
With the exception of Los Gatos Meadows, all the CCRCs owned and operated by ESC have been accredited by the Commission on Accreditation of Rehabilitation Facilities-Continuing Care Accreditation Commission and have been continuously accredited since 1999. The most recent re-accreditation was completed in 2010 for a five-year period.

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APPENDIX B
AUDITED FINANCIAL STATEMENTS OF
THE CORPORATION

INDEPENDENT AUDITOR'S REPORT
CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL SCHEDULES
AS OF AND FOR THE YEARS ENDED
MARCH 31, 2009, 2010 AND 2011

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Report of Independent Auditors and
Consolidated Financial Statements with
Supplemental Information

**Episcopal Senior Communities
(An Affiliate of JTM Communities)**

March 31, 2011 and 2010

MOSS ADAMS LLP

Certified Public Accountants | Business Consultants

Acumen. Agility. Answers.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Episcopal Senior Communities

We have audited the accompanying consolidated statements of financial position of Episcopal Senior Communities (hereafter "ESC"), (an affiliate of JTM Communities) as of March 31, 2011 and 2010, 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 ESC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Presidio Gate Apartments ("PGA"), a controlled entity of ESC, whose statements reflect total assets of \$2,919,060 and \$3,096,165 as of March 31, 2011 and 2010, respectively, and total revenues and gains of \$1,136,521 and \$1,147,021, respectively for the years then ended. We did not audit the financial statements of Jennings Senior Housing ("JSH"), a controlled entity of ESC, whose statements reflect total assets of \$11,715,011 and \$11,959,613 as of March 31, 2011 and 2010, respectively, and total revenues and gains of \$388,105 and \$369,473, respectively for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for PGA and JSH are based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ESC's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Senior Communities at March 31, 2011 and 2010, and the results of its activities and 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.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information on pages 25-27 is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position or changes in net assets of the individual locations, and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of ESC's management. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.



San Francisco, California
June 30, 2011

CONSOLIDATED FINANCIAL STATEMENTS

EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 13,798,906	\$ 68,576,130
Assets held by bond indenture trustee for current debt service	8,343,359	8,067,626
Marketable securities	64,656,980	662,865
Receivables, net of allowance for doubtful accounts of \$79,962 in 2011 and \$93,962 in 2010	9,005,663	9,565,001
Prepaid expenses, deposits, and other assets	<u>993,486</u>	<u>1,149,544</u>
Total current assets	<u>96,798,394</u>	<u>88,021,166</u>
ASSETS WHOSE USE IS LIMITED		
Assets held by bond indenture trustee and restricted for construction and debt service	23,083,355	22,867,531
Less portion available to satisfy current debt service	<u>(8,343,359)</u>	<u>(8,067,626)</u>
Noncurrent portion	14,739,996	14,799,905
Funded reserves for replacement and insurance	587,648	541,107
Other reserves	64,525	62,511
Investments held in trust	4,936,509	5,035,972
Restricted investments	<u>8,744,056</u>	<u>10,667,875</u>
Total long-term assets whose use is limited	<u>29,072,734</u>	<u>31,107,370</u>
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	207,656,540	213,094,223
DEFERRED CHARGES AND OTHER ASSETS	11,193,933	10,824,771
JTM NOTE RECEIVABLE	<u>10,000,000</u>	<u>10,000,000</u>
Total assets	<u>\$ 354,721,601</u>	<u>\$ 353,047,530</u>

See accompanying notes.

EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (continued)
March 31, 2011 and 2010

	2011	2010
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 3,493,313	\$ 4,702,911
Accrued payroll and payroll taxes	2,891,608	2,666,313
Current portion of long-term debt	28,966,023	29,817,411
Accrued interest	809,367	900,182
Refundable deposits	229,508	212,057
Self-insurance and other liabilities	4,246,636	4,185,900
Total current liabilities	40,636,455	42,484,774
PENSION BENEFIT OBLIGATION	6,251,940	8,161,915
LONG-TERM DEBT, NET OF CURRENT PORTION	68,217,244	74,490,891
DEFERRED REVENUE FROM ENTRANCE FEES	153,526,927	152,850,888
DEFERRED REVENUE FROM INVESTMENT CONTRACT	1,906,777	2,228,182
LIABILITIES FOR PAYMENT TO TRUST BENEFICIARIES	2,340,671	2,074,350
OTHER LIABILITIES	4,022,385	3,798,144
Total liabilities	276,902,399	286,089,144
NET ASSETS		
Unrestricted	67,227,018	55,916,635
Temporarily restricted	9,937,764	10,546,115
Permanently restricted	654,420	495,636
Total net assets	77,819,202	66,958,386
Total liabilities and net assets	\$ 354,721,601	\$ 353,047,530

See accompanying notes.

EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and gains		
Resident fees	\$ 51,744,955	\$ 51,105,385
Amortization of deferred revenue from entrance fees	20,547,166	20,028,868
Nursing center	20,075,551	16,739,503
Outside and other medical fees	1,705,141	1,577,790
Affordable housing fees and rents	1,524,084	1,515,989
Other	196,894	-
Contributions	145,293	152,811
Net assets released from restriction for assistance and operations	1,922,922	1,628,434
Total revenues and gains	<u>97,862,006</u>	<u>92,748,780</u>
Expenses		
Nursing expenses	18,378,254	15,952,625
Outside and other medical expenses	5,292,911	4,788,162
Dining services	15,547,780	14,857,794
Environmental services	4,573,234	4,470,618
Maintenance	6,494,597	6,307,801
General and administrative expenses	12,655,803	12,344,337
Marketing	2,727,367	2,545,382
Utility expenses	4,831,356	4,620,706
Other	2,776,335	3,989,042
Program expenses	1,189,484	1,596,919
Fundraising activities	7,366	-
Depreciation	15,549,116	15,126,759
Interest	4,049,958	4,365,913
Total expenses	<u>94,073,561</u>	<u>90,966,058</u>
INCOME BEFORE INVESTMENT INCOME AND UNREALIZED GAINS ON INVESTMENTS	3,788,445	1,782,722
INVESTMENT INCOME (LOSS)		
Investment income	2,391,897	2,047,197
Net realized gains (losses) on investments	<u>(1,185,529)</u>	<u>13,114,371</u>
Total investment income	<u>1,206,368</u>	<u>15,161,568</u>
NET INCOME	4,994,813	16,944,290
NET UNREALIZED GAIN ON INVESTMENTS	5,852,528	569,728
OTHER INCOME (EXPENSE) FROM INTANGIBLE AIR RIGHTS	300,000	(1,350,675)
CHANGE IN PENSION BENEFIT OBLIGATION	<u>163,042</u>	<u>(519,900)</u>
INCREASE IN UNRESTRICTED NET ASSETS	<u>11,310,383</u>	<u>15,643,443</u>

See accompanying notes.

EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS (continued)
Years Ended March 31, 2011 and 2010

	2011	2010
CHANGES IN TEMPORARILY RESTRICTED		
NET ASSETS		
Contributions	598,273	609,932
Investment income	254,705	444,022
Other	42,403	-
Net realized gains on investments	217,369	831,441
Net unrealized gains on investments	763,652	1,847,307
Changes in split interest gift agreements	(403,047)	-
Net assets released from restrictions for assistance and operations	(2,081,706)	(1,596,919)
Increase (decrease) in temporarily restricted net assets	(608,351)	2,135,783
CHANGES IN PERMANENTLY RESTRICTED		
NET ASSETS		
Other	158,784	85,133
Investment income	-	10,905
Net realized gains on investments	-	20,610
Earnings used for assistance	-	(31,515)
Increase in permanently restricted net assets	158,784	85,133
INCREASE IN NET ASSETS	10,860,816	17,864,359
NET ASSETS, beginning of year	66,958,386	49,094,027
NET ASSETS, end of year	\$ 77,819,202	\$ 66,958,386

See accompanying notes.

EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from residents and third-party payors	\$ 75,729,871	\$ 70,913,068
Proceeds from entrance fees	21,418,791	21,920,564
Processing fees	43,250	34,500
Investment gains	1,357,037	16,130,583
Cash paid to employees and suppliers	(75,369,693)	(72,541,378)
Interest paid	(3,973,681)	(4,299,891)
Net cash provided by operating activities	<u>19,205,575</u>	<u>32,157,446</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property acquisitions and construction in progress	(10,111,433)	(8,585,681)
Property dispositions	-	3,277,867
Changes in deferred charges and other assets and JTM note receivable	(413,793)	(3,696,176)
Decrease in funds held by bond indenture trustee	(280,365)	(34,210)
Marketable securities sold	48,425,420	93,780,136
Marketable securities acquired	(104,355,132)	(42,855,339)
Net cash provided by (used in) investing activities	<u>(66,735,303)</u>	<u>41,886,597</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term and short-term debt repayment	(7,277,411)	(6,940,015)
Proceeds from long-term debt borrowing	29,915	27,252
Net cash used in financing activities	<u>(7,247,496)</u>	<u>(6,912,763)</u>
NET INCREASE (DECREASE) IN CASH	(54,777,224)	67,131,280
CASH AND CASH EQUIVALENTS, beginning of year	<u>68,576,130</u>	<u>1,444,850</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 13,798,906</u>	<u>\$ 68,576,130</u>

See accompanying notes.

EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)
Years Ended March 31, 2011 and 2010

	2011	2010
RECONCILIATION OF CHANGE IN NET ASSETS TO		
NET CASH FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 10,860,816	\$ 17,864,359
Adjustments to reconcile to net cash from operating activities		
Amortization of deferred revenue from entrance fees	(20,547,166)	(20,028,868)
Proceeds from entrance fees, net of refunds	21,418,791	21,920,564
Depreciation	15,549,116	15,126,759
Amortization of debt issuance costs and other	44,631	131,242
Amortization of bond issue discount	122,461	122,460
Amortization of investment contract	(321,405)	(337,963)
Restricted contributions	(598,273)	(609,932)
Change in net unrealized losses on investments	(5,426,862)	(2,417,035)
Other income (expense) from intangible air rights	(300,000)	1,350,675
Write off of predevelopment costs	-	1,067,557
Change in pension benefit obligation	(163,042)	519,900
Effects of changes in		
Receivables, net	363,752	(135,809)
Other assets	156,058	303,873
Accounts payable	(1,209,598)	(1,370,265)
Other liabilities	642,493	155,528
Accrued retirement benefits	(1,446,933)	(1,595,357)
Self-insurance liabilities	60,736	89,758
Net cash provided by operating activities	\$ 19,205,575	\$ 32,157,446

See accompanying notes.

**EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations – Episcopal Senior Communities (“ESC”), a California nonprofit public benefit corporation, provides housing, related facilities and services for elderly persons on a nonprofit, religious, and charitable basis. ESC operates five continuing-care retirement communities, Canterbury Woods in Pacific Grove, St. Paul’s Towers in Oakland, Los Gatos Meadows in Los Gatos, Spring Lake Village in Santa Rosa and San Francisco Towers in San Francisco, under licenses from the California Department of Social Services. ESC also operates two affordable housing communities, Presidio Gate Apartments (“PGA”) in San Francisco and Jennings Senior Housing, Inc. (“JSH”) in Santa Rosa under Regulatory Agreements with the U.S. Department of Housing and Urban Development. ESC’s sole corporate member and parent corporation is JTM Communities which is also a California nonprofit public benefit corporation providing housing and services to elderly persons in addition to providing support to its subsidiary entities. JTM Communities is not included in the consolidated financial statements of ESC.

ESC controls a supporting organization, Episcopal Senior Communities Foundation (“ESCF”), a California nonprofit public benefit corporation. The primary purpose of ESCF is to raise funds on behalf of Episcopal Senior Communities and to administer those funds for the needs of ESC. Episcopal Senior Communities is the sole corporate member of ESCF and it is included in the consolidated financial statements of ESC.

ESC controls Presidio Gate Apartments (“PGA”), San Francisco, California and Jennings Senior Housing, Inc. (“JSH”), Santa Rosa, California, which were organized under the sponsorship of ESC in 1982 and 2005, respectively, to provide affordable residential complexes for elderly or disabled persons. PGA and JSH are included in the consolidated financial statements of ESC.

Oak Center Towers (“OCT”), Oakland, California, was organized under the sponsorship of ESC in 1971 to operate an affordable residential complex for elderly or disabled persons. OCT, in turn, is the general partner of Oak Centers, L.P. (“OCLP”), a California limited partnership organized as a tax credit vehicle to refinance, rehabilitate, own and operate the property. ESC controlled OCT from inception until June 2008 when control of OCT was transferred to JTM. OCT is not included in the consolidated financial statements of ESC.

JTM is affiliated with Lytton Gardens Senior Communities (“LGSC”) and is its sole corporate member. LGSC is the sole corporate member of Community Housing, Inc. which owns and operates a 220 unit affordable senior residential community (“Lytton I”) and a 100 unit affordable residential care facility for the elderly (“Lytton II”). LGSC is also the sole corporate member of another 55 unit affordable senior residential community (“Lytton IV”), and of a 145 unit skilled nursing facility, Lytton Gardens, Inc. (“LGI”) (collectively, the “Lytton Entities”). All of the Lytton Entities are California nonprofit public benefit corporations located in Palo Alto, California. The Lytton Entities are not included in the consolidated financial statements of ESC.

Basis of presentation – The accompanying consolidated financial statements include the accounts of Episcopal Senior Communities, its supporting organization, Episcopal Senior Communities Foundation, Jennings Senior Housing, Inc., and Presidio Gate Apartments (collectively referred to as “ESC”). All significant intercompany balances and transactions have been eliminated.

Cash and cash equivalents – Cash and cash equivalents includes cash held in demand deposit, sweep, savings accounts and certain investments in highly liquid instruments with original maturities of three months or less.

Marketable securities – Marketable securities, including those held by the bond indenture trustee and restricted investments, are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in income unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from performance measures (Note 2).

Receivables – In addition to receiving payment from residents and from non-residents for services provided, ESC also receives payment for health services from insurance companies, Medicare, and other third-party payers. ESC regularly reviews its accounts and provides allowances for uncollectible accounts. Also included in receivables are amounts due to ESC under short-term notes receivable issued as consideration by the residents for all or part of their entrance fees. These notes receivable are generally due in 90-120 days.

JTM note receivable – As part of the corporate reorganization of JTM and ESC in 2007, ESC entered into a Loan Agreement with JTM. JTM executed an unsecured promissory note for \$10,000,000 having a term of ten years and bearing interest at a variable rate (adjusted annually) equal to that paid by ESC on its Series 2000 bonds, and cash and securities having a value of \$10,000,000 have been transferred to JTM. Interest rates on the note at March 31, 2011 and 2010 are 0.25% and 0.12%, respectively.

**EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Assets whose use is limited – ESC – Assets whose use is limited include assets restricted by bond indenture for construction and debt service. Such assets consist of government securities carried at market and a Guaranteed Investment Contract (“GIC”) which is carried at fair value plus accrued interest.

Assets whose use is limited – PGA – Assets whose use is limited are funded reserves for replacement and insurance of Presidio Gate Apartments. Such assets consist of government securities carried at fair value based on quoted market prices (Note 2).

Restricted investments – Restricted investments consist primarily of marketable securities which are restricted by the donor as to use (Note 2).

Property and equipment – Property and equipment are stated at cost. Acquisitions of \$2,000 or more and with a useful life of more than one year are capitalized. Depreciation is based upon straight-line method at rates based on the estimated useful lives of the various classes of property which range from 3 to 40 years. ESC periodically evaluates the carrying value of its long-lived assets for impairment. Based on this evaluation, no impairment was recorded for the years ended March 31, 2011 and 2010. (Note 3).

Concentration of risk – Financial instruments potentially subjecting ESC to concentrations of credit risk consist primarily of bank demand deposits in excess of FDIC limits.

Deferred charges and other assets – Deferred charges and other assets primarily represent costs incurred in connection with the issuance of debt which are amortized over the life of the related debt using the effective interest method. Included are predevelopment costs of \$8,539,747 and \$8,218,480 as of March 31, 2011 and 2010, respectively. Other assets also include the fair value of interest rate swaps (Note 4).

Deferred revenue from investment contract – In 2003, ESC entered into a contract related to certain bond reserve funds, which are included in assets whose use is limited, whereby ESC received approximately \$5,115,000 in cash proceeds representing the discounted cash value of the investment earnings over the remaining 16-year life of those reserve funds. This amount was recorded as deferred revenue and is being amortized into revenue using the effective interest method over the term of the arrangement. ESC recognized \$321,405 and \$337,963 as revenue during the years ended March 31, 2011 and 2010, respectively.

Obligations under charitable annuity agreements – In exchange for an irrevocable deferred gift, ESCF is required to pay a certain sum of money to the donor(s), and, consequently, a liability is reflected in obligations under annuity agreements. These liabilities are included in other liabilities in the accompanying combined balance sheets. These types of arrangements are summarized as follows:

Charitable gift annuities – As consideration for certain gifts made to ESC, ESC enters into agreements to pay fixed annual payments to the donors for the life of the contract. In accordance with Section 11521 of the California Insurance Code, a liability has been established for the future payments under the outstanding annuity contracts. In 2011 and 2010, the annual computation of the temporarily restricted amount of the gift is based upon a 2005 Group Annuity Mortality Table, with an interest assumption at approximately 6% per annum. Assets in excess of liabilities, if any, related to these annuities are available for the use of ESC with the approval of the California Department of Insurance.

Charitable remainder unitrusts – Unitrusts are trust agreements that provide for a fixed annual payment of not less than 5% of the market value as of the first business day of the calendar year of trust assets to one or more income beneficiaries, with an irrevocable remainder interest contributed pursuant to the donor’s intent.

Charitable remainder annuity trusts – Annuity trusts are trust agreements that provide for a fixed annual payment of not less than 5% of the market value as of the first business day of the calendar year of trust assets to one or more income beneficiaries, with an irrevocable remainder interest contributed pursuant to the donor’s intent.

Self-insurance liabilities – ESC is self-insured for workers’ compensation and unemployment. The undiscounted liability includes estimates of the ultimate costs for both known claims and claims incurred but not reported based on actuarial studies. At March 31, 2011 and 2010, ESC had \$4,146,541 and \$4,078,917 accrued related to such claims, respectively. These amounts are included in self-insurance and other liabilities in the consolidated financial statements.

**EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Professional liability insurance – ESC has secured claims-made policies for malpractice and general liability insurance with self-insured retentions over the past three years of \$35,000 for each claim. No accrual has been made for the estimated costs of known claims incurred prior to March 31, 2011 and 2010, respectively, which are within the retention amount. In addition, no accrual has been made at March 31, 2011 and 2010 for estimated costs of claims incurred but not yet reported.

Obligation to provide future services – If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. ESC has determined that no accrual for the obligation to provide future services and use of facilities to current residents is required at March 31, 2011 and 2010. The discount rate used to calculate obligation to provide future services is 6%.

Net assets – ESC classifies net assets as follows:

Unrestricted net assets represent unrestricted resources available to support ESC’s operations and temporarily restricted resources which have become available for use by ESC in accordance with the intention of the donor.

Temporarily restricted net assets represent contributions that are limited in use by ESC in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of ESC according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. Temporarily restricted net assets are available primarily for assistance and capital projects as designated by the donors.

Permanently restricted net assets represent net assets subject to donor imposed stipulations that they be maintained by ESC in perpetuity. The Board of Directors has interpreted California’s enacted Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as requiring the preservation of the fair value of the original gift as of the gift date of permanently restricted donations absent explicit donor stipulations to the contrary. As a result of this interpretation, ESC classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanently restricted fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Generally, the donors of these assets permit ESC to use all or part of the investment return on these assets and the donor agreements allow ESC to appropriate for distribution each year 5 percent of its endowment fund’s prior year average fair value. Unrealized gains and investment income allocated to the permanently restricted fund are classified as temporarily restricted net assets, as supported by the associated agreements, until those amounts are appropriated for expenditure by ESC in a manner consistent with the standard of prudence prescribed by UPMIFA. In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before a loss occurs. Any remaining loss shall reduce unrestricted net assets.

Revenue recognition – Entrance fees on Type A lifecare contracts are recorded as deferred revenue and are amortized on a straight-line basis over the actuarially determined remaining individual or joint and last survivor life expectancies of the residents. Upon a resident’s death or permanent transfer for medical care, ESC can resell the housing unit. A decreasing portion of the entrance fee is refundable by cancellation or termination of the care agreements during the first five years of occupancy. Entrance fees on Type C continuing care contracts are 90% refundable upon termination and reoccupancy of the housing unit and are amortized on a straight-line basis over the life of the building. The remainder is amortized on a straight-line basis over the actuarially determined remaining individual or joint and last survivor life expectancies of the residents.

Entrance fees subject to refund at March 31, 2011 and 2010, were \$56,522,238 and \$56,375,115, respectively, and are shown as a non-current liability. It is management’s expectation that future refunds will not have a significant effect on the consolidated financial statements.

Monthly resident fees and medical fees are recognized as services are performed.

ESC also provides health care services to residents of its communities some of which are reimbursed by Medicare. Revenues from the Medicare program accounted for approximately 10.64% and 7.35% of ESC’s net revenue for the years ended March 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare program are complex and subject to interpretation. ESC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from Medicare.

**EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Contribution income – Other than deferred gifts such as charitable gift annuities or charitable remainder annuity trusts, contributions are recognized as revenue when received or unconditionally promised.

Accounting for derivatives – ESC follows Accounting Standards Codification (“ASC”) Topic 815, *Derivative and Hedging*, which establishes accounting and reporting standards for derivative instruments and requires that all derivatives be carried at fair value on the consolidated statements of financial position. Changes in the fair value of derivative instruments are reflected as a change in net unrealized gains or losses on investments in the consolidated statements of activities and changes in net assets for the year ended March 31, 2011, following the guidance of ASC Topic 954 *Health Care Entities*, which ESC adopted for the year ended March 31, 2005, (Note 4).

Statutory reserve requirements – ESC is subject to statutory reserve requirements. At March 31, 2011, ESC’s reserves, as calculated in accordance with the Continuing Care Contract Statutes of the California Health and Safety Code, were in excess of such requirements.

Tax-exempt status – ESC is a not-for-profit corporation as described in Section 501(c) (3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

ESC adopted the provisions of the ASC Topic 740-10, *Income Taxes*, relating to accounting for uncertain tax positions on April 1, 2009, which had no financial statement impact to ESC. ESC recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ESC recognizes interest and penalties related to income tax matters in operating expenses.

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. These estimates and assumptions 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Major items requiring estimates and assumptions include deferred revenues and amortization of entrance fees, accrued self-insurance liabilities, obligation to provide future services, valuation of derivative instruments, valuation of financial instruments, and valuation of pension and retirement obligations.

Fair value of financial instruments – The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and long-term debt approximate fair value. ESC’s policy is to recognize transfers in and transfers out of Levels 1, 2, and 3 as of the end of the reporting period.

New accounting pronouncements – In August 2010, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2010-24, *Health Care Entities (Topic 954), Presentation of Insurance Claims and Related Insurance Recoveries* (“ASU 2010-24”), which clarifies that a health care entity should not net insurance recoveries against related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The adoption of ASU 2010-24 is effective for ESC beginning April 1, 2011. The adoption of ASU 2010-24 is not expected to have a material impact on the consolidated statements of activities and changes in net assets. Management is currently evaluating the impact on the consolidated statements of financial position.

In February 2010, the FASB issued ASU No. 2010-06, *Improving Disclosures about Fair Value Measurements* (“ASU 2010-06”), which amended ASC No. 820, *Fair Value Measurements and Disclosures* (“ASC 820”), to require new disclosures related to transfers in and out of Level 1, Level 2 and Level 3 fair value measurements. In addition, ASU 2010-06 clarifies existing disclosure requirements related to the level of disaggregation of classes of assets and liabilities and provides further detail about input and valuation techniques used for fair value measurements. ESC adopted this guidance in 2011 (see Note 2).

Reclassifications – Certain financial statement reclassifications have been made to prior year balances for comparability purposes and had no impact on net income or net assets as previously reported.

**EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 2 – MARKETABLE SECURITIES

ASC Topic 820, *Fair Value Measurements and Disclosures* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC Topic 820 describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities; or net asset value per share (or its equivalent) with the ability to redeem the investment in the near term.
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated statements of financial position at March 31, 2011 and 2010, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Marketable securities – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded equities and cash equivalents included in money market funds.

Interest rate swap agreement and guaranteed investment contract – The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying consolidated statements of financial position measured at fair value on a recurring basis and the level within the ASC Topic 820 fair value hierarchy in which the fair value measurements fall at March 31:

Description	Level 1	Level 2	Level 3	Balance at March 31, 2011
Cash equivalents	\$ 14,365,305	\$ 157,999	\$ -	\$ 14,523,304
Available for sale				
Fixed income securities				
Government securities	7,706,947	-	-	7,706,947
Corporate bonds	684,310	-	-	684,310
Equity securities				
US equities	17,288,494	-	-	17,288,494
Non US equities	3,753,952	-	-	3,753,952
Mutual funds	52,358,854	-	-	52,358,854
Guaranteed investment contract	-	5,757,212	-	5,757,212
Interest rate swaps	-	575,427	-	575,427
 Total	 \$ 96,157,862	 \$ 6,490,638	 \$ -	 \$ 102,648,500

EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Balance at March 31, 2010</u>
Cash equivalents	\$ 81,464,499	\$ -	\$ -	\$ 81,464,499
Available for Sale				
Fixed income securities				
Government securities	6,645,486	-	-	6,645,486
Corporate bonds	696,426	-	-	696,426
Equity securities				
US equities	3,507,861	-	-	3,507,861
Non US equities	276,094	-	-	276,094
Mutual funds	1,643,664	-	-	1,643,664
Guaranteed investment contract	-	5,638,728	-	5,638,728
Interest rate swaps	-	586,051	-	586,051
 Total	 <u>\$ 94,234,030</u>	 <u>\$ 6,224,779</u>	 <u>\$ -</u>	 <u>\$ 100,458,809</u>

There were no significant transfers in or out of Level 1 and Level 2 fair value measurements.

Marketable securities at fair value consisted of the following at March 31:

	<u>2011</u>	<u>2010</u>
Cash equivalents	\$ 14,523,304	\$ 81,464,499
Available for sale		
Fixed income securities		
Government securities	7,706,947	6,645,486
Corporate bonds	684,310	696,426
Equity securities		
US equities	17,288,494	3,507,861
Non US equities	3,753,952	276,094
Mutual funds	52,358,854	1,643,664
Guaranteed investment contract	5,757,212	5,638,728
 Total	 102,073,073	 99,872,758
Less assets held by bond indenture trustee and restricted for construction and debt service	(23,083,355)	(22,867,531)
Less assets held as funded reserves for replacement and insurance	(652,173)	(603,618)
Less marketable securities included in restricted investments and held in trust	(13,680,565)	(15,703,847)
Less marketable securities included in cash and cash equivalents	-	(60,034,897)
 Total marketable securities	 <u>\$ 64,656,980</u>	 <u>\$ 662,865</u>

**EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

The following disclosure is made pursuant to section 1790(a)(3) of the California Health & Safety Code: The Board of Directors have identified certain contingencies listed below to which the unrestricted net assets of ESC may be exposed; and, therefore, directed that prudent reserves be established as a safeguard against such contingencies. Although not restricted in accordance with ASC Topic 958, *Not-for-Profit Entities*, Board of Directors-designated funds represent the current intentions of the Board of Directors.

	<u>2011</u>
Plant replacement fund	\$ 30,743,265
Income fund	22,463,021
Self-insurance fund	<u>13,674,002</u>
Total	<u>\$ 66,880,288</u>

Maintaining such reserves meets the needs of the continuing care retirement communities by providing a source of funds to replace plant, either in the normal course of its operations and/or with respect to uninsured losses, and to otherwise meet its obligations as they become due in periods of reduced entrance or monthly fee revenue.

In addition, the Board has designated the initial amount of \$1,000,000 to be held in the Dr. Darby Betts Fund to promote needed services to seniors either by making grants to other organizations or expanding ESC's own efforts to support seniors in the larger community and who are not residents of its retirement or affordable housing communities. This fund is jointly administered by ESC and Episcopal Diocese of California. This commitment meets the needs of the continuing care retirement communities by demonstrating a broader community benefit in support of and to preserve its tax exempt status. As of March 31, 2011, the balance of the fund was \$844,950 and \$80,000 was expended from the fund for such purposes during the year then ended. As of March 31, 2010, the balance of the fund was \$920,669 and \$40,000 was expended from the fund for such purposes during the year then ended.

According to the trust agreements for the Series 1998 Certificates and the Series 2000 Certificates, certain funds are to be maintained and held by a trustee, primarily for debt service. Such funds, at fair value of \$23,083,353 and \$22,867,531, were classified as assets whose use is limited and were invested in government securities at March 31, 2011 and 2010, respectively. The portion of these assets available to satisfy current debt service is shown as a current asset in the accompanying statements of financial position.

The following table shows the gross unrealized losses and fair value of investments and assets limited as to use with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31:

	Fair Value Below Cost as of March 31, 2011					
	<u>Less than 12 months</u>		<u>12 months or greater</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Bonds	\$ 5,862,205	\$ (24,903)	\$ 124,179	\$ (7,289)	\$ 5,986,384	\$ (32,192)
Equity	<u>3,403,407</u>	<u>(465,562)</u>	<u>610,557</u>	<u>(51,769)</u>	<u>4,013,964</u>	<u>(517,331)</u>
Total temporarily impaired securities	<u>\$ 9,265,612</u>	<u>\$ (490,465)</u>	<u>\$ 734,736</u>	<u>\$ (59,058)</u>	<u>\$ 10,000,348</u>	<u>\$ (549,523)</u>

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	Fair Value Below Cost as of March 31, 2010					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds	\$ 2,981,835	\$ (40,815)	\$ 1,251,464	\$ (63,589)	\$ 4,233,299	\$ (104,404)
Equity	342,983	(747)	2,058,713	(323,731)	2,401,696	(324,478)
Total temporarily impaired securities	<u>\$ 3,324,818</u>	<u>\$ (41,562)</u>	<u>\$ 3,310,177</u>	<u>\$ (387,320)</u>	<u>\$ 6,634,995</u>	<u>\$ (428,882)</u>

The fair market value of these investments have declined due to volatility in the financial markets, changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of other than temporary impairment under management's policy. ESC follows a policy of evaluating securities for impairment which considers available evidence in evaluating potential impairment of its investments. This review considers the severity and duration of the decline in market value, the materiality of the losses on an individual security in relation to the entire portfolio, the volatility of the security's market price, third-party analyst reports, credit rating changes, and regulatory or legal action changes, among other factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment loss and a new cost basis in the investment is established. For the years ended March 31, 2011 and 2010, no securities were determined to be other-than-temporarily impaired.

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

	2011	2010
Buildings	\$ 317,193,363	\$ 311,186,982
Furniture and equipment	32,441,422	38,777,312
Total	349,634,785	349,964,294
Less accumulated depreciation	(175,284,973)	(169,314,916)
Total	174,349,812	180,649,378
Land	31,223,474	30,995,180
Construction in progress	2,083,254	1,449,665
Property and Equipment, net of accumulated depreciation	<u>\$ 207,656,540</u>	<u>\$ 213,094,223</u>

Depreciation expense included in operations was \$15,549,116 and \$15,126,759 for 2011 and 2010, respectively.

**EPISCOPAL SENIOR COMMUNITIES
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NOTE 4 – LONG-TERM DEBT

Long-term debt consisted of the following at March 31:

	<u>2011</u>	<u>2010</u>
ABAG Finance Authority for Nonprofit Corporations, Variable Rate Certificates of Participation, Series 2000, dated February 17, 2000, in the original amount of \$33,250,000; variable interest rate of 0.18% at March 31, 2011, paid semiannually; principal paid annually at February 1; maturing on February 1, 2025, subject to earlier tender.	\$ 22,540,000	\$ 23,720,000
ABAG Finance Authority for Nonprofit Corporations, Refunding Revenue Certificates of Participation, Series 1998, dated June 1, 1998, in the original amount of \$116,706,000; interest from 5.00% to 5.35% paid semiannually; principal paid annually at July 1; maturing in installments at July 1, 2010, July 1, 2013, and July 1, 2018.	59,862,187	65,754,725
U.S. Department of Housing and Urban Development (HUD) Section 202 Capital Advance, dated September 26, 1984, secured by a first deed of trust on real property, bearing interest of 9.25% per annum. Principal and interest are payable in monthly installments of \$28,093; due in full December 1, 2025.	2,708,950	2,791,362
U.S. Department of Housing and Urban Development (HUD) Section 202 Capital Advance, dated February 1, 2007, secured by a first deed of trust on real property, bearing no interest. The advance is essentially a forgivable loan and shall only be repayable if the Project fails to remain available to very low-income households as approved by HUD for a 40 year period from March 2008 through February 2048.	6,870,900	6,870,900
Housing Authority of the City of Santa Rosa note, dated February 10, 2006, secured by second deed of trust on the property, bearing 3% simple interest per annum from the date of each advance beginning February 2004. Payment of principal and interest is to be made from 75% of annual "Surplus Cash", if any (as defined by the loan agreement), paid only from Residual Receipts and only with the approval of HUD. The balance of principal and accrued interest is due at maturity in February 2048. The 42-year term is designed to coincide with the closing of the HUD Capital Advance period. At this time, the City has an option to acquire the Project in exchange for cancellation of the principal and accrued interest outstanding at that date.	4,985,230	4,955,315
Subsidy repayment payable to Sonoma National Bank ("SNB") through the AHP Loan program, non-interest bearing, secured by a deed of trust on Jennings Court. Principal amount will be forgiven in full on June 1, 2023, as long as the property has maintained the affordability limits as required by the AHP Program.	216,000	216,000
Total	97,183,267	104,308,302
Less current portion	<u>(28,966,023)</u>	<u>(29,817,411)</u>
Long-term debt	<u>\$ 68,217,244</u>	<u>\$ 74,490,891</u>

The Series 1998 and Series 2000 Certificates are collateralized by an unsecured pledge of gross revenues from the continuing care retirement communities.

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On April 3, 2002, ESC entered into a swap agreement whereby, effective July 1, 2005, ESC will receive a fixed rate of 0.20% on a notional amount of approximately \$41 million and pay the counterparty the absolute value of the excess of BMA over 72% of the 1 month LIBOR, if any. At March 31, 2011 and 2010, ESC has reflected the interest rate swaps at a fair value of \$(124,410) and \$586,051 in deferred charges and other assets and a corresponding unrealized gain (loss) in the statement of activities and changes in net assets of \$(710,461) and \$1,189,074 for the years ended March 31, 2011 and 2010, respectively.

ESC is subject to certain financial covenants related to its 1998 and 2000 series debt. ESC was in compliance with these financial covenants as of March 31, 2011.

Annual maturities of long-term debt consist of the following:

Year Ending March 31.

2012	\$ 28,966,023
2013	6,754,089
2014	7,108,653
2015	7,479,141
2016	7,865,640
Thereafter	<u>39,897,534</u>
Total	98,071,080
Less: Unamortized discount	<u>(887,813)</u>
Net	<u><u>\$ 97,183,267</u></u>

Due to certain provisions of the Reimbursement Agreement which relate only to the Series 2000 Variable Rate Certificates of Participation (the "Bonds"), the entire outstanding balance of the Bonds is presented as a current liability; and the scheduled maturities in 2011 include the full amounts due under the Bonds. Notwithstanding that Bonds mature on February 1, 2025, such presentation is required by ASC 470-10-45 which deals with presentation of debt that is subject to an earlier tender.

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NOTE 5 – RESTRICTED NET ASSETS

Restricted net assets in the consolidated financial statements at March 31, 2011 and 2010 are available for the following:

	2011		
	Permanently Restricted	Temporarily Restricted	Total
Assistance fund	\$ 654,420	\$ 4,633,430	\$ 5,287,850
Community fund and other	-	2,173,722	2,173,722
Deferred contribution to pooled annuities and trusts	-	3,130,612	3,130,612
Total restricted net assets	\$ 654,420	\$ 9,937,764	\$ 10,592,184

	2010		
	Permanently Restricted	Temporarily Restricted	Total
Assistance fund	\$ 495,636	\$ 5,342,180	\$ 5,837,816
Community fund and other	-	2,115,635	2,115,635
Deferred contribution to pooled annuities and trusts	-	3,088,300	3,088,300
Total restricted net assets	\$ 495,636	\$ 10,546,115	\$ 11,041,751

Assistance funds have been established from donations and bequests. Management defines assistance provided to residents as the difference between prevailing entry and monthly maintenance fees and the fees charged assisted residents, which amounted to approximately \$1,016,434 and \$772,173 for 2011 and 2010, respectively.

NOTE 6 – OPERATING LEASES

ESC is obligated under various equipment and building operating leases expiring at various dates through 2016. Rental expense included in operations was \$575,104 and \$469,368 for 2011 and 2010, respectively. Future minimum rental payments required under non-cancellable leases as of March 31, 2011, consist of the following:

Year Ending March 31.

2012	\$ 577,786
2013	587,755
2014	359,695
2015	58,129
2016	3,848
Total	\$ 1,587,213

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NOTE 7 – RETIREMENT PLAN

ESC has a defined benefit pension plan which provides benefits under retirement annuity contracts. Salaried and hourly employees who have attained the age of 21 and have performed 1,000 hours of service in the plan year are eligible to participate in the plan upon completion of one year continuous employment. Benefits are based on years of service and compensation prior to retirement. ESC makes all contributions, which are funded based on actuarially determined amounts. Amortization is based on the average remaining lives of active employees.

A reconciliation of the plan’s benefit obligations, fair value of assets, funded status, and amounts recognized in ESC’s consolidated statements of financial position is as follows as of March 31:

	<u>2011</u>	<u>2010</u>
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 26,339,746	\$ 20,154,300
Service cost	1,155,831	940,227
Interest cost	1,571,650	1,438,049
Actuarial loss	1,227,135	4,941,184
Assumption changes	-	(254,515)
Benefits paid	<u>(1,028,866)</u>	<u>(879,499)</u>
Benefit obligation at measurement date	<u>29,265,496</u>	<u>26,339,746</u>
Change in plan assets:		
Fair value of plan assets, beginning of year	18,177,831	12,274,893
Actual return on plan assets	2,507,055	4,772,069
Employer contribution	3,357,536	2,010,368
Benefits paid	<u>(1,028,866)</u>	<u>(879,499)</u>
Fair value of plan assets at measurement date	<u>23,013,556</u>	<u>18,177,831</u>
Funded status at measurement date	<u>\$ (6,251,940)</u>	<u>\$ (8,161,915)</u>
Amounts recognized in the statement of financial position consist of:		
Noncurrent liabilities	<u>\$ (6,251,940)</u>	<u>\$ (8,161,915)</u>
Amounts recognized in unrestricted net assets consist of:		
Unrecognized net actuarial loss	\$ 8,982,647	\$ 9,357,843
Unrecognized prior service cost	<u>(953,309)</u>	<u>(1,056,337)</u>
Amounts recognized in unrestricted net assets at measurement date	<u>8,029,338</u>	<u>8,301,506</u>
Accumulated benefit obligation	<u>\$ 28,591,025</u>	<u>\$ 25,737,257</u>

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The components of net periodic benefit cost included as part of employee costs in ESC's combined statement of operations and changes in net assets are as follows for the years ended March 31:

	<u>2011</u>	<u>2010</u>
Service cost	\$ 1,155,831	\$ 940,227
Interest cost	1,571,650	1,438,049
Expected return on plan assets	(1,399,126)	(993,591)
Amortization of prior service cost	(103,028)	(84,314)
Amortization of net (gain) loss	494,402	510,720
Net periodic benefit cost	<u>1,719,729</u>	<u>1,811,091</u>
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial loss	119,206	1,162,706
Prior service credit	-	(254,515)
Amortization of net loss	(494,402)	(510,720)
Amortization of prior service credit	<u>103,028</u>	<u>84,314</u>
Amounts recognized in unrestricted net assets at measurement date	<u>(272,168)</u>	<u>481,785</u>
Total recognized in net periodic benefit cost and unrestricted net assets at measurement date	<u>\$ 1,447,561</u>	<u>\$ 2,292,876</u>

The following assumptions were used for the March 31 measurement date:

	<u>2011</u>	<u>2010</u>
Actuarial present value of the benefit obligation		
Weighted-average discount rate	5.80%	6.10%
Rate of increase in future compensation levels	3.50%	3.50%
Long-term rate of return on plan assets	8.00%	8.00%
Net periodic benefit cost		
Weighted-average discount rate	6.10%	7.30%
Rate of increase in future compensation levels	3.50%	3.50%
Long-term rate of return on plan assets	8.00%	8.00%

The expected long term rate of return on plan assets of 8% is based on an investment allocation of 65% equities, 30% fixed income securities and 5% real estate securities.

Pension plan assets as of the March 31 measurement date were as follows:

	<u>2011</u>	<u>2010</u>
Equity securities	65%	65%
Fixed income securities	29%	29%
Real estate securities	6%	6%
Total	<u>100%</u>	<u>100%</u>

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The fair value of ESC's pension plan assets by asset category are as follows:

Description	Level 1	Level 2	Level 3	Balance at March 31, 2011
Pooled separate accounts				
Large U.S. equity	\$ -	\$ 6,107,802	\$ -	\$ 6,107,802
Small/mid U.S. equity	-	2,923,426	-	2,923,426
International equity	-	3,574,273	-	3,574,273
Fixed income	-	6,773,103	-	6,773,103
Total pooled separate accounts	-	19,378,604	-	19,378,604
Mutual funds				
Large U.S. equity	\$ 2,131,466	\$ -	\$ -	\$ 2,131,466
Small/mid U.S. equity	1,503,486	-	-	1,503,486
Total mutual funds	3,634,952	-	-	3,634,952
Total	\$ 3,634,952	\$ 19,378,604	\$ -	\$ 23,013,556

Description	Level 1	Level 2	Level 3	Balance at March 31, 2010
Pooled separate accounts				
Large U.S. equity	\$ -	\$ 4,897,735	\$ -	\$ 4,897,735
Small/mid U.S. equity	-	2,254,929	-	2,254,929
International equity	-	2,970,811	-	2,970,811
Fixed income	-	5,327,587	-	5,327,587
Total pooled separate accounts	-	15,451,062	-	15,451,062
Mutual funds				
Large U.S. equity	\$ 1,643,556	\$ -	\$ -	\$ 1,643,556
Small/mid U.S. equity	1,083,213	-	-	1,083,213
Total mutual funds	2,726,769	-	-	2,726,769
Total	\$ 2,726,769	\$ 15,451,062	\$ -	\$ 18,177,831

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Explanation of investment strategies and policies – ESC employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks as well as growth, value, small and large capitalizations. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews.

ESC expects to contribute \$1,798,100 to its pension plan in the fiscal year beginning April 1, 2011 and ending March 31, 2012.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2012	\$	1,240,000
2013		1,300,000
2014		1,360,000
2015		1,450,000
2016		1,540,000
Years 2017- 2020		9,080,000

Supplemental deferred compensation plan - ESC also maintains for certain key employees a Supplemental Deferred Compensation Plan (“Supplemental Plan”) which is a non-qualified, deferred compensation plan which provides a defined contribution benefit pursuant to 409A and 457(f) of the Internal Revenue Code. All participants are granted an Annual Retention Benefit award in each year. Participants will vest in the balances on the earlier of their death or disability, reaching the age of 65, or five years after the award of their first Discretionary or Annual Retention Benefit award. The accrued liability as of December 31, 2011 and 2010 was \$955,526 and \$973,006, respectively.

NOTE 8 – RELATED PARTIES

During fiscal years 2011 and 2010, ESC purchased general and professional liability insurance for \$490,115 and \$465,702, respectively, from an insurance company in which ESC is a shareholder. At March 31, 2011 and 2010, ESC’s investment was \$301,104 for both years. This investment is recorded at cost because it represents less than 5% of the shares of the insurance company.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Litigation – ESC is party to various claims and legal actions in the normal course of business. In the opinion of management, ESC has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of ESC.

Asbestos – ESC is aware of the existence of asbestos in certain of its buildings. ESC has not recorded a liability for any asbestos abatement costs because the cost cannot be reasonably estimated at this time. At such time in the future that plans are made to make changes to structures with asbestos and the related asbestos removal cost estimates are completed, ESC will record an estimate of the costs of the required asbestos abatement.

Affiliation with LGSC – As a part of the affiliation between JTM and LGSC, ESC made arrangements to put in place and to guarantee a \$4,000,000 line of credit from Wells Fargo Bank to LGI. In the event that it becomes necessary for LGI to draw on the line of credit and is unable to make principal or interest payments, ESC and JTM are jointly and severally liable to make the payments on LGI’s behalf. Any such payments would be repayable to the guarantors by LGI under the terms of the affiliation agreement. LGI has not made any draws on the line of credit.

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Operating deficit guarantee – With respect to OCT’s obligations as the General Partner of OCLP, ESC has guaranteed that it will advance funds to OCT in an amount necessary for OCT to make the required Operating Deficit Contribution when such Operating Deficit cannot be satisfied from Partnership funds including OCLP’s Operating Reserve and OCT does not have sufficient funds to make an Operating Deficit Contribution to OCLP. The advances shall be interest free and payable out of Capital proceeds. The operating deficit period begins after the completion date and ends on the date that the following have occurred: (1) the Project has operated at Break-even for at least three consecutive calendar years following the stabilization date of the Project; and (2) the balance in the Operating Reserve equals or exceeds the Operating Reserve amount. As of March 31, 2011, no advances have been made under the agreement.

Credit adjuster and additional advance guaranty – With respect to OCT’s obligations as the general partner of OCLP, ESC has guaranteed to advance funds to OCT in the amount necessary for OCT to make the required Credit Adjuster Advance or Additional Advance. The Credit Adjuster Advance is limited to \$835,799.

Health care reform – In March 2010, President Obama signed the Health Care Reform Legislation into law. The new law will result in sweeping changes across the health care industry. The primary goal of this comprehensive legislation is to extend health care coverage to approximately 32 million uninsured legal U.S. residents through a combination of public program expansion and private sector health insurance reforms. To fund the expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. ESC is unable to predict the full impact of the Health Care Reform Legislation at this time due to the law’s complexity and current lack of implementing regulations or interpretive guidance. However, ESC expects that provisions of the Health Care Reform Legislation may have a material effect on its business.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. ESC recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. ESC’s consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before consolidated financial statements are issued.

In April 2011, the Board of Directors approved a motion to refinance the 1998 and 2000 series bonds.

A dispute with Wells Fargo Bank (formerly Wachovia) relating to the early termination of an interest rate swap has been resolved in ESC’s favor in the amount of \$985,000.

ESC has evaluated subsequent events through June 30, 2011 which is the date the consolidated financial statements are issued.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

NOTE 11 – SUMMARY OF FINANCIAL STATEMENTS AUDITED BY OTHER AUDITORS

	2011	
	<u>Total Assets</u>	<u>Total Revenues</u>
Presidio Gate Apartments	\$ 2,919,060	\$ 1,136,521
Jennings Senior Housing	11,715,011	388,105
	<u>\$ 14,634,071</u>	<u>\$ 1,524,626</u>
	2010	
	<u>Total Assets</u>	<u>Total Revenues</u>
Presidio Gate Apartments	\$ 3,906,165	\$ 1,147,021
Jennings Senior Housing	11,959,613	369,473
	<u>\$ 15,865,778</u>	<u>\$ 1,516,494</u>

SUPPLEMENTAL INFORMATION

EPISCOPAL SENIOR COMMUNITIES
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CONSOLIDATING STATEMENT OF FINANCIAL POSITION
March 31, 2011

	Episcopal Senior Communities	ESC Foundation	Presidio Gate Apartments	Jennings Senior Housing	Elimination	Consolidated Episcopal Senior Communities
ASSETS						
Current assets						
Cash and cash equivalents	\$ 10,830,957	\$ 2,858,321	\$ 80,057	\$ 29,571	\$ -	\$ 13,798,906
Assets held by bond indenture trustee for current debt service	8,343,359	-	-	-	-	8,343,359
Marketable securities	64,656,980	-	-	-	-	64,656,980
Receivables, net of allowance for doubtful accounts	10,017,728	17,000	2,250	11,592	(1,042,907)	9,005,663
Prepaid expenses, deposits, and other assets	951,039	20,000	9,287	13,160	-	993,486
Total current assets	<u>94,800,063</u>	<u>2,895,321</u>	<u>91,594</u>	<u>54,323</u>	<u>(1,042,907)</u>	<u>96,798,394</u>
Assets whose use is limited						
Assets held by bond indenture trustee and restricted for debt service						
Less portion available to satisfy current debt service	23,083,355	-	-	-	-	23,083,355
	<u>(8,343,359)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,343,359)</u>
Noncurrent portion	14,739,996	-	-	-	-	14,739,996
Funded reserves for replacement and insurance	-	-	475,363	112,285	-	587,648
Other reserves	-	-	54,357	10,168	-	64,525
Investments held in trust	-	4,936,509	-	-	-	4,936,509
Restricted investments	-	8,744,056	-	-	-	8,744,056
Total long-term assets whose use is limited	<u>14,739,996</u>	<u>13,680,565</u>	<u>529,720</u>	<u>122,453</u>	<u>-</u>	<u>29,072,734</u>
Property and equipment, net of accumulated depreciation	193,820,559	-	2,297,746	11,538,235	-	207,656,540
Deferred charges and other assets	11,215,055	-	-	-	(21,122)	11,193,933
JTM note receivable	10,000,000	-	-	-	-	10,000,000
Total assets	<u>\$ 324,575,673</u>	<u>\$ 16,575,886</u>	<u>\$ 2,919,060</u>	<u>\$ 11,715,011</u>	<u>\$ (1,064,029)</u>	<u>\$ 354,721,601</u>

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CONSOLIDATING STATEMENT OF FINANCIAL POSITION (continued)
March 31, 2011

	Episcopal Senior Communities	ESC Foundation	Presidio Gate Apartments	Jennings Senior Housing	Elimination	Consolidated Episcopal Senior Communities
LIABILITIES AND NET ASSETS						
Current liabilities						
Accounts payable	\$ 3,498,564	\$ 2,475	\$ -	\$ 58,217	\$ (65,943)	\$ 3,493,313
Accrued payroll and payroll taxes	2,870,337	-	17,870	3,401	-	2,891,608
Current portion of long-term debt	28,875,000	-	91,023	-	-	28,966,023
Accrued interest	786,397	-	22,970	-	-	809,367
Refundable deposits	199,000	-	14,152	16,356	-	229,508
Self-insurance liabilities and other liabilities	4,232,507	-	10,733	3,396	-	4,246,636
Total current liabilities	40,461,805	2,475	156,748	81,370	(65,943)	40,636,455
Pension benefit obligation	6,251,940	-	-	-	-	6,251,940
Long-term debt, net of current portion	53,527,187	-	2,617,927	12,072,130	-	68,217,244
Deferred revenue from entrance fees	153,526,927	-	-	-	-	153,526,927
Deferred revenue from investment contract	1,906,777	-	-	-	-	1,906,777
Liabilities for payment to trust beneficiaries	-	2,340,671	-	-	-	2,340,671
Other liabilities	1,175,799	3,062,025	-	782,647	(998,086)	4,022,385
Total liabilities	256,850,435	5,405,171	2,774,675	12,936,147	(1,064,029)	276,902,399
Net assets						
Unrestricted	67,725,238	755,341	90,028	(1,343,589)	-	67,227,018
Temporarily restricted	-	9,760,954	54,357	122,453	-	9,937,764
Permanently restricted	-	654,420	-	-	-	654,420
Total net assets	67,725,238	11,170,715	144,385	(1,221,136)	-	77,819,202
Total liabilities and net assets	\$ 324,575,673	\$ 16,575,886	\$ 2,919,060	\$ 11,715,011	\$ (1,064,029)	\$ 354,721,601

**EPISCOPAL SENIOR COMMUNITIES
(AN AFFILIATE OF JTM COMMUNITIES)
CONSOLIDATING STATEMENT OF ACTIVITIES INFORMATION BY LOCATION
Year Ended March 31, 2011**

	Canterbury Woods	St. Paul's Towers	Los Gatos Meadows	Spring Lake Village	San Francisco Towers	Support Services	ESC Foundation	Eliminations	Subtotal	Presidio Gate Apartments	Jennings Senior Housing	Eliminations	Total
CHANGES IN UNRESTRICTED NET ASSETS													
Revenues and gains													
Resident fees	\$ 6,998,064	\$ 11,267,840	\$ 6,007,066	\$ 12,550,492	\$ 14,921,493	\$ -	\$ -	\$ -	\$ 51,744,955	\$ -	\$ -	\$ -	\$ 51,744,955
Amortization of deferred revenue from entrance fees	2,181,214	2,706,994	1,810,923	5,883,627	7,964,408	-	-	-	20,547,166	-	-	-	20,547,166
Nursing center	1,287,054	4,453,309	4,138,229	6,619,510	3,577,449	-	-	-	20,075,551	-	-	-	20,075,551
Outside and other medical fees	127,661	256,807	70,129	955,333	295,211	-	-	-	1,705,141	-	-	-	1,705,141
Affordable housing fees and rents	-	-	-	-	-	-	-	-	-	1,135,991	388,093	-	1,524,084
Other	-	6,124	-	4,717	-	185,511	-	-	196,352	530	12	-	196,894
Contributions from ESC	-	-	-	-	-	-	515,905	(515,905)	-	-	-	-	-
Contributions	-	-	-	-	-	-	145,293	-	145,293	-	-	-	145,293
Net assets released from restriction for assistance and operations	-	-	-	-	-	-	1,922,922	-	1,922,922	-	-	-	1,922,922
Total revenues and gains	10,593,993	18,691,074	12,026,347	26,013,679	26,758,561	185,511	2,584,120	(515,905)	96,337,380	1,136,521	388,105	-	97,862,006
Expenses													
Nursing expenses	1,798,060	3,271,957	3,705,784	5,808,477	3,793,976	-	-	-	18,378,254	-	-	-	18,378,254
Outside and other medical expenses	489,871	855,560	823,147	1,983,335	1,140,998	-	-	-	5,292,911	-	-	-	5,292,911
Dining services	2,006,722	3,068,954	2,137,527	3,930,644	4,403,933	-	-	-	15,547,780	-	-	-	15,547,780
Environmental services	607,157	941,635	593,638	1,110,672	1,320,132	-	-	-	4,573,234	-	-	-	4,573,234
Maintenance	602,174	1,371,997	907,839	1,292,879	2,076,397	-	-	-	6,251,286	162,406	80,905	-	6,494,597
General and administrative expenses	881,814	1,324,373	1,000,081	1,321,919	1,025,729	5,833,610	508,539	-	11,896,065	489,057	192,141	78,540	12,655,803
Allocated management and accounting service fees	840,465	1,203,125	702,298	1,606,079	1,416,119	(5,768,086)	-	-	-	42,000	36,540	(78,540)	-
Marketing	339,926	573,737	444,663	762,134	606,907	-	-	-	2,727,367	-	-	-	2,727,367
Utility expenses	499,263	1,016,095	550,770	1,326,869	1,342,690	-	-	-	4,735,687	54,212	41,457	-	4,831,356
Other	148,292	310,802	545,099	328,553	389,506	1,527,585	-	(515,905)	2,733,932	2,010	40,393	-	2,776,335
Program expenses	-	-	-	-	-	-	1,189,484	-	1,189,484	-	-	-	1,189,484
Fundraising activities	-	-	-	-	-	-	7,366	-	7,366	-	-	-	7,366
Depreciation	1,466,313	3,705,978	2,055,487	3,142,754	4,200,634	472,238	-	-	15,043,404	191,639	314,073	-	15,549,116
Interest	107,182	315,548	172,744	564,311	1,640,405	847,222	-	-	3,647,412	254,704	147,842	-	4,049,958
Total expenses	9,787,239	17,959,761	13,639,077	23,178,626	23,357,426	2,912,569	1,705,389	(515,905)	92,024,182	1,196,028	853,351	-	94,073,561
INCOME BEFORE INVESTMENT INCOME AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS	806,754	731,313	(1,612,730)	2,835,053	3,401,135	(2,727,058)	878,731	-	4,313,198	(59,507)	(465,246)	-	3,788,445
INVESTMENT INCOME (LOSS)	-	-	-	-	-	2,392,293	(396)	-	2,391,897	-	-	-	2,391,897
NET REALIZED LOSS ON INVESTMENTS	-	-	-	-	-	(1,062,535)	(122,994)	-	(1,185,529)	-	-	-	(1,185,529)
NET INCOME (LOSS)	806,754	731,313	(1,612,730)	2,835,053	3,401,135	(1,397,300)	755,341	-	5,519,566	(59,507)	(465,246)	-	4,994,813
NET UNREALIZED GAIN ON INVESTMENTS	-	-	-	-	-	5,852,528	-	-	5,852,528	-	-	-	5,852,528
OTHER INCOME FROM INTANGIBLE AIR RIGHTS	-	-	-	-	-	300,000	-	-	300,000	-	-	-	300,000
CHANGE IN MINIMUM PENSION LIABILITY	-	-	-	-	-	163,042	-	-	163,042	-	-	-	163,042
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	\$ 806,754	\$ 731,313	\$ (1,612,730)	\$ 2,835,053	\$ 3,401,135	\$ 4,918,270	\$ 755,341	\$ -	\$ 11,835,136	\$ (59,507)	\$ (465,246)	\$ -	\$ 11,310,383

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EPISCOPAL SENIOR COMMUNITIES

**INDEPENDENT AUDITOR'S REPORT
AND
CONSOLIDATED FINANCIAL STATEMENTS
WITH SUPPLEMENTAL INFORMATION**

MARCH 31, 2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Episcopal Senior Communities

We have audited the accompanying consolidated statements of financial position of Episcopal Senior Communities and its supporting organization, Episcopal Senior Communities Foundation, (collectively, referred to as "ESC"), as of March 31, 2010 and 2009, 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 ESC's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Presidio Gate Apartments ("PGA"), a controlled entity of ESC, which statements reflect total assets of \$3,096,165 and \$3,151,060 as of March 31, 2010 and 2009, respectively, and total revenues and gains of \$1,147,021 and \$1,110,090, respectively for the years then ended. We did not audit the financial statements of Jennings Senior Housing ("JSH"), a controlled entity of ESC, which statements reflect total assets of \$11,959,613 and \$12,286,338 as of March 31, 2010 and 2009, respectively, and total revenues and gains of \$369,473 and \$241,242, respectively for the years then ended. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for PGA and JSH are based solely on the reports of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ESC's internal controls over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Episcopal Senior Communities and its supporting organization, Episcopal Senior Communities Foundation, at March 31, 2010 and 2009, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental information on pages 23-27 is presented for the purpose of additional analysis of the basic consolidated financial statements rather than to present the financial position or changes in net assets of the individual locations or of Episcopal Senior Communities Foundation, and is not a required part of the basic consolidated financial statements. This additional information is the responsibility of ESC's management. Such information has been subjected to the auditing procedures applied in our audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic consolidated financial statements taken as a whole.



San Francisco, California
June 24, 2010

CONSOLIDATED FINANCIAL STATEMENTS

EPISCOPAL SENIOR COMMUNITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 65,466,165	\$ 1,444,850
Assets held by bond indenture trustee for current debt service	8,067,626	7,793,932
Marketable securities	662,865	50,630,525
Receivables, net of allowance for doubtful accounts	9,565,001	13,109,567
Prepaid expenses, deposits, and other assets	<u>1,149,544</u>	<u>1,453,417</u>
Total current assets	<u>84,911,201</u>	<u>74,432,291</u>
ASSETS WHOSE USE IS LIMITED		
Assets held by bond indenture trustee and restricted for construction and debt service	22,867,531	23,016,956
Less portion available to satisfy current debt service	<u>(8,067,626)</u>	<u>(7,793,932)</u>
Noncurrent portion	14,799,905	15,223,024
Funded reserves for replacement and insurance	541,107	357,472
Restricted investments	<u>18,876,323</u>	<u>13,696,528</u>
Total long-term assets whose use is limited	<u>34,217,335</u>	<u>29,277,024</u>
PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION	213,094,223	222,913,168
DEFERRED CHARGES AND OTHER ASSETS	10,824,771	8,327,394
JTM NOTE RECEIVABLE	<u>10,000,000</u>	<u>10,000,000</u>
Total assets	<u>\$ 353,047,530</u>	<u>\$ 344,949,877</u>

See accompanying notes.

EPISCOPAL SENIOR COMMUNITIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2010 and 2009

	2010	2009
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 4,702,911	\$ 6,073,176
Accrued payroll and payroll taxes	2,666,313	2,760,259
Current portion of long-term debt	29,817,411	30,660,157
Accrued interest	900,182	1,087,862
Refundable deposits	212,057	220,158
Self-insurance and other liabilities	4,113,380	4,023,622
Total current liabilities	42,412,254	44,825,234
PENSION BENEFIT OBLIGATION	9,207,441	8,932,223
LONG-TERM DEBT, NET OF CURRENT PORTION	74,490,891	80,438,448
DEFERRED REVENUE FROM ENTRANCE FEES	152,850,888	154,639,567
DEFERRED REVENUE FROM INVESTMENT CONTRACT	2,228,182	2,566,145
OTHER LIABILITIES	4,899,488	4,454,233
Total liabilities	286,089,144	295,855,850
NET ASSETS		
Unrestricted	55,916,635	40,273,192
Temporarily restricted	10,546,115	8,410,332
Permanently restricted	495,636	410,503
Total net assets	66,958,386	49,094,027
Total liabilities and net assets	\$ 353,047,530	\$ 344,949,877

EPISCOPAL SENIOR COMMUNITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended March 31, 2010 and 2009

	2010	2009
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and gains		
Resident fees	\$ 51,105,385	\$ 49,649,138
Amortization of deferred revenue from entrance fees	20,028,868	18,866,778
Nursing center	16,739,503	16,504,460
Outside and other medical fees	1,577,790	1,650,152
Affordable housing fees and rents	1,515,989	1,350,839
Other	152,811	271,078
Net assets released from restriction for assistance and operations	1,628,434	1,532,793
Total revenues and gains	<u>92,748,780</u>	<u>89,825,238</u>
Expenses		
Nursing expenses	15,952,625	15,612,854
Outside and other medical expenses	4,788,162	5,644,460
Dining services	14,857,794	15,325,646
Environmental services	4,470,618	4,478,555
Maintenance	6,307,801	6,227,827
General and administrative expenses	12,344,337	12,437,664
Marketing	2,545,382	3,058,767
Utility expenses	4,620,706	5,008,844
Other	5,585,961	3,312,014
Depreciation and amortization	15,126,759	14,546,818
Interest	4,365,913	3,273,410
Total expenses	<u>90,966,058</u>	<u>88,926,859</u>
INCOME BEFORE INVESTMENT INCOME AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS	1,782,722	898,379
INVESTMENT INCOME (LOSS)		
Investment income	2,047,197	2,613,631
Net realized gains (losses) on investments	13,114,371	(7,988,347)
Total investment income (loss)	<u>15,161,568</u>	<u>(5,374,716)</u>
NET INCOME (LOSS)	16,944,290	(4,476,337)
NET UNREALIZED GAIN (LOSSES) ON INVESTMENTS	569,728	(14,900,189)
WRITE OFF OF INTANGIBLE AIR RIGHTS	(1,350,675)	-
CHANGE IN PENSION BENEFIT OBLIGATION	(519,900)	(6,975,593)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>15,643,443</u>	<u>(26,352,119)</u>

See accompanying notes.

EPISCOPAL SENIOR COMMUNITIES
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Years Ended March 31, 2010 and 2009

	2010	2009
CHANGE IN CONTROLLING COMPANY FOR OCT & OCLP	-	(8,431,435)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Contributions	609,932	1,455,731
Investment income	444,022	357,796
Net realized gains (losses) on investments	831,441	(518,585)
Net unrealized gains (losses) on investments	1,847,307	(3,861,865)
Net assets released from restrictions for assistance and operations	(1,596,919)	(1,532,793)
Increase (decrease) in temporarily restricted net assets	2,135,783	(4,099,716)
CHANGES IN PERMANENTLY RESTRICTED NET ASSETS		
Other	85,133	-
Investment income	10,905	17,548
Net realized gains (losses) on investments	20,610	(43,888)
Net unrealized losses on investments	-	(167,752)
Earnings used for assistance	(31,515)	-
Increase (decrease) in permanently restricted net assets	85,133	(194,092)
INCREASE (DECREASE) IN NET ASSETS	17,864,359	(39,077,362)
NET ASSETS, beginning of year	49,094,027	88,171,389
NET ASSETS, end of year	\$ 66,958,386	\$ 49,094,027

See accompanying notes.

EPISCOPAL SENIOR COMMUNITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2010 and 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from residents and third-party payors	\$ 70,913,068	\$ 67,272,950
Proceeds from entrance fees	21,920,564	19,874,451
Processing fees	34,500	36,250
Investment gains (losses)	16,130,583	(5,917,219)
Cash paid to employees and suppliers	(72,541,378)	(70,428,982)
Interest paid	(4,299,891)	(3,191,172)
Change in controlling company of OCT & OCLP	-	(8,431,435)
Net cash provided by (used in) operating activities	<u>32,157,446</u>	<u>(785,157)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Property acquisitions and construction in progress	(8,585,681)	-
Property dispositions	3,277,867	418,174
Changes in deferred charges and other assets and JTM note receivable	(3,696,176)	(2,825,283)
Non-controlling interest	-	(5,005,090)
Decrease in funds held by bond indenture trustee	(34,210)	(551,158)
Marketable securities sold	90,670,171	11,909,933
Marketable securities acquired	(42,855,339)	-
Net cash provided by investing activities	<u>38,776,632</u>	<u>3,946,576</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Long-term and short-term debt repayment	(6,940,015)	(11,227,014)
Long-term debt borrowing	27,252	2,824,503
Net cash used in financing activities	<u>(6,912,763)</u>	<u>(8,402,511)</u>
NET INCREASE (DECREASE) IN CASH	64,021,315	(5,241,092)
CASH AND CASH EQUIVALENTS, beginning of year	<u>1,444,850</u>	<u>6,685,942</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 65,466,165</u>	<u>\$ 1,444,850</u>

See accompanying notes.

EPISCOPAL SENIOR COMMUNITIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended March 31, 2010 and 2009

	2010	2009
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 17,864,359	\$ (30,645,927)
Adjustments to reconcile to net cash from operating activities		
Change in controlling company for OCT & OCLP	-	(8,431,435)
Amortization of deferred revenue from entrance fees	(20,028,868)	(18,866,778)
Proceeds from entrance fees, net of refunds	21,920,564	19,874,451
Depreciation and amortization	15,126,759	14,546,818
Amortization of debt issuance costs and other	131,242	133,717
Amortization of bond issue discount	122,460	122,460
Amortization of monetized reserve fund	(337,963)	(355,374)
Restricted contributions	(609,932)	(1,455,731)
Change in net unrealized (gains) losses on investments	(2,417,035)	18,929,806
Write off of intangible air rights	1,350,675	-
Write off of predevelopment costs	1,067,557	-
Change in pension benefit obligation	519,900	6,975,593
Effects of changes in		
Receivables, net	(135,809)	(2,048,761)
Other assets	303,873	(196,530)
Accounts payable	(1,370,265)	1,411,887
Other liabilities	155,528	842,826
Accrued retirement benefits	(1,595,357)	(87,919)
Self-insurance liabilities	89,758	(1,534,260)
Net cash provided by (used in) operating activities	\$ 32,157,446	\$ (785,157)

EPISCOPAL SENIOR COMMUNITIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – DESCRIPTION OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business – Episcopal Senior Communities (“ESC”), a California nonprofit public benefit corporation, operates five continuing-care retirement communities, Los Gatos Meadows, St. Paul’s Towers, Canterbury Woods, Spring Lake Village and San Francisco Towers, under license from the State of California. Episcopal Senior Communities provides housing, related facilities and services for elderly persons on a nonprofit, religious, and charitable basis.

ESC controls Jennings Senior Housing, Inc. (“JSH”), Santa Rosa, California, and Presidio Gate Apartments (“PGA”), San Francisco, California, which were organized under the sponsorship of ESC in 2005 and 1982, respectively, to provide affordable residential complexes for elderly or disabled persons. Jennings Court, JSH’s complex, opened in June 2008. PGA and JSH are included in the consolidated financial statements of ESC.

ESC controls a supporting organization, Episcopal Senior Communities Foundation (“ESCF”), formerly EHF Fund, Inc., a California nonprofit public benefit corporation. The primary purpose of ESCF is to raise funds on behalf of Episcopal Senior Communities and to administer those funds for the needs of ESC and its residents. Episcopal Senior Communities is the sole corporate member of ESCF, and it is included in the consolidated financial statements of ESC.

In September, 2007 Episcopal Homes foundation (“EHF”) and John Tenant Memorial Homes (“JTMH”) completed their plan to reorganize the corporate structure and the relationships between the two entities such that EHF was renamed Episcopal Senior Communities; JTMH was renamed JTM Communities (“JTM”); and JTM became the sole corporate member and parent corporation of ESC. JTM Communities is not included in the consolidated financial statements of ESC.

Oak Center Towers (“OCT”), Oakland, California, was organized under the sponsorship of ESC in 1971 to operate an affordable residential complex for elderly or disabled persons. OCT, in turn, is the general partner of Oak Centers, L.P. (“OCLP”), a California limited partnership organized as a tax credit vehicle to refinance, rehabilitate, own and operate the property. ESC controlled OCT from inception until June 2008 when control of OCT was transferred to JTM. OCT is not included in the consolidated financial statements of ESC.

In November 2007, JTM affiliated with Lytton Gardens Senior Communities (“LGSC”) by becoming the sole corporate member of LGSC. LGSC is the sole corporate member of Community Housing, Inc. which owns and operates a 220 unit affordable senior residential community (“Lytton I”) and a 100 unit affordable residential care facility for the elderly (“Lytton II”). LGSC is also the sole corporate member of another 55 unit affordable senior residential community (“Lytton IV”), and a 145 unit skilled nursing facility (“Lytton Gardens, Inc.” or “LGI”) (collectively, the “Lytton Entities”). All of the Lytton Entities are California nonprofit public benefit corporations located in Palo Alto, California. The Lytton Entities are not included in the consolidated financial statements of ESC.

Basis of Presentation – The accompanying consolidated financial statements include the accounts of Episcopal Senior Communities, its supporting organization, Episcopal Senior Communities Foundation, Jennings Senior Housing, Inc., and Presidio Gate Apartments (collectively referred to as “ESC”). All significant intercompany balances and transactions have been eliminated.

Cash and Cash Equivalents – Cash and cash equivalents includes cash held in demand deposit, sweep, savings accounts and certain investments in highly liquid instruments with original maturities of three months or less.

Marketable Securities – Marketable securities, including those held by the bond indenture trustee and restricted investments, are measured at fair value in the balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in income unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from performance measures (Note 2).

Receivables – In addition to receiving payment from residents and from non-residents for services provided, ESC also receives payment for health services from insurance companies, Medicare, and other third-party payers. ESC regularly reviews its accounts and provides allowances for uncollectible accounts. Also included in receivables are amounts due to ESC under short-term notes receivable issued as consideration by the residents for all or part of their entrance fees. These notes receivable are generally due in 90-120 days.

**EPISCOPAL SENIOR COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Receivable from Parent: JTM – As part of the corporate reorganization of JTM and ESC, ESC entered into a Loan Agreement with JTM. JTM executed an unsecured promissory note for \$10,000,000 having a term of ten years and bearing interest at a variable rate (adjusted annually) equal to that paid by ESC on its Series 2000 bonds, and cash and securities having a value of \$10,000,000 have been transferred to JTM. Interest rates on the note at March 31, 2010 and 2009, are 0.12% and 1.45%, respectively.

Assets Whose Use is Limited – ESC – Assets whose use is limited include assets restricted by bond indenture for construction and debt service. Such assets consist of government securities carried at market and a Guaranteed Investment Contract (“GIC”) which is carried at market value plus accrued interest.

Assets Whose Use Is Limited – PGA – Assets whose use is limited are funded reserves for replacement and insurance of Presidio Gate Apartments. Such assets consist of government securities carried at fair value based on quoted market prices (Note 2).

Restricted Investments – Restricted investments consist primarily of marketable securities which are restricted by the donor as to use (Note 2).

Property and Equipment – Property and equipment are stated at cost. Acquisitions of \$2,000 or more and with a useful life of more than one year are capitalized. Depreciation is based upon straight-line method at rates based on the estimated useful lives of the various classes of property which range from 3 to 40 years. ESC periodically evaluates the carrying value of its long-lived assets for impairment. Based on this evaluation, no impairment was recorded for the years ended March 31, 2010 and 2009.

Concentration of Risk – Financial instruments potentially subjecting ESC to concentrations of credit risk consist primarily of bank demand deposits in excess of FDIC limits.

Deferred Charges and Other Assets – Deferred charges and other assets primarily represent costs incurred in connection with the issuance of debt which are amortized over the life of the related debt using the effective interest method. Included are predevelopment costs of \$8,218,480 and \$8,150,975 for the years ended March 31, 2010 and 2009, respectively. Other assets also include the fair value of interest rate swaps (Note 4).

Deferred Revenue from Investment Contract – In 2003, ESC entered into a contract related to certain of its bond reserve funds, which are included in assets whose use is limited, whereby ESC received approximately \$5,115,000 in cash proceeds representing the discounted cash value of the investment earnings over the remaining 16-year life of those reserve funds. This amount was recorded as deferred revenue and is being amortized into revenue using the effective interest method over the term of the arrangement. ESC recognized \$337,963 and \$355,374 as revenue during the years ended March 31, 2010 and 2009, respectively.

Obligations Under Charitable Annuity Agreements – In exchange for an irrevocable deferred gift, ESCF is required to pay a certain sum of money to the donor(s), and, consequently, a liability is reflected in obligations under annuity agreements. These liabilities are included in other liabilities in the accompanying combined balance sheets. These types of arrangements are summarized as follows:

Charitable Gift Annuities – As consideration for certain gifts made to ESC, ESC enters into agreements to pay fixed annual payments to the donors for the life of the contract. In accordance with Section 11521 of the California Insurance Code, a liability has been established for the future payments under the outstanding annuity contracts. In 2010 and 2009, the annual computation of the temporarily restricted amount of the gift is based upon a 2005 Group Annuity Mortality Table, with an interest assumption at approximately 6% per annum. Assets in excess of liabilities, if any, related to these annuities are available for the use of ESC with the approval of the California Department of Insurance.

Charitable Remainder Annuity Trusts – Annuity trusts are trust agreements that provide for a fixed annual payment of not less than 5% of the market value as of the first business day of the calendar year of trust assets to one or more income beneficiaries, with an irrevocable remainder interest contributed pursuant to the donor’s intent.

EPISCOPAL SENIOR COMMUNITIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Self-Insurance Liabilities – ESC is self-insured for workers' compensation and unemployment. The undiscounted liability includes estimates of the ultimate costs for both known claims and claims incurred but not reported based on actuarial studies. At March 31, 2010 and 2009, ESC had \$4,078,917 and \$3,992,282 accrued related to such claims, respectively. These amounts are included in self-insurance and other liabilities in the consolidated financial statements.

Professional Liability Insurance – ESC has secured claims-made policies for malpractice and general liability insurance with self-insured retentions over the past three years of \$35,000 for each claim. No accrual has been made for the estimated costs of known claims incurred prior to March 31, 2010 and 2009, respectively, which are within the retention amount. In addition, no accrual has been made at March 31, 2010 and 2009, respectively, for estimated costs of claims incurred but not yet reported.

Obligation to Provide Future Services – If the present value of estimated future cash outflows to provide services to residents exceeds the present value of estimated future cash inflows from residents, a liability is recognized. ESC has determined that no accrual for the obligation to provide future services and use of facilities to current residents is required at March 31, 2010 and 2009. The discount rate used to calculate obligation to provide future services is 6%.

Net Assets – ESC classifies net assets as follows:

Unrestricted net assets represent unrestricted resources available to support ESC's operations and temporarily restricted resources which have become available for use by ESC in accordance with the intention of the donor.

Temporarily restricted net assets represent contributions that are limited in use by ESC in accordance with temporary donor-imposed stipulations. These stipulations may expire with time or may be satisfied by the actions of ESC according to the intention of the donor. Upon satisfaction of such stipulations, the associated net assets are released from temporarily restricted net assets and recognized as unrestricted net assets. Temporarily restricted net assets are available primarily for assistance and capital projects as designated by the donors.

Permanently restricted net assets represent net assets subject to donor imposed stipulations that they be maintained by ESC in perpetuity. The Board of Directors has interpreted California's enacted Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of permanently restricted donations absent explicit donor stipulations to the contrary. As a result of this interpretation, ESC classifies as permanently restricted net assets (a) the original value of gifts donated, (b) the original value of subsequent gifts, and (c) accumulations to the permanently restricted fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Generally, the donors of these assets permit ESC to use all or part of the investment return on these assets and the donor agreements allow ESC to appropriate for distribution each year 5 percent of its endowment fund's prior year average fair value. Permanently restricted net assets are commingled with ESC's other investments and returns are allocated to the permanently restricted fund on a pro-rata basis. Unrealized gains and investment income allocated to the permanently restricted fund are classified as temporarily restricted net assets, as supported by the associated agreements, until those amounts are appropriated for expenditure by ESC in a manner consistent with the standard of prudence prescribed by UPMIFA. In the absence of donor stipulations or law to the contrary, losses on the investments of a donor-restricted endowment fund shall reduce temporarily restricted net assets to the extent that donor-imposed temporary restrictions on net appreciation of the fund have not been met before a loss occurs. Any remaining loss shall reduce unrestricted net assets.

Revenue Recognition – Entrance fees on Type A lifecare contracts are recorded as deferred revenue and are amortized on a straight-line basis over the actuarially determined remaining individual or joint and last survivor life expectancies of the residents. Upon a resident's death or permanent transfer for medical care, ESC can resell the housing unit. A decreasing portion of the entrance fee is refundable by cancellation or termination of the care agreements during the first five years of occupancy. Entrance fees on Type C continuing care contracts are 90% refundable upon termination and reoccupancy of the housing unit and are amortized on a straight-line basis over the life of the building. Entrance fees subject to refund at March 31, 2010 and 2009, were \$56,375,115 and \$61,761,545, respectively, and are shown as a non-current liability. It is management's expectation that future refunds will not have a significant effect on the consolidated financial statements.

Monthly resident fees and medical fees are recognized as services are performed.

EPISCOPAL SENIOR COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

ESC also provides health care services primarily to residents of its communities. Revenues from the Medicare program accounted for approximately 7.35% and 6.77% of ESC's net revenue for the years ended March 31, 2010 and 2009, respectively. Laws and regulations governing the Medicare program are complex and subject to interpretation. ESC believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and exclusion from Medicare.

Contribution Income – Contributions are recognized as revenue when received or unconditionally promised.

Accounting for Derivatives – ESC follows Accounting Standards Codification (“ASC”) Topic 815 (formerly known as Statement of Financial Accounting Standards (“SFAS”) No. 133, *Accounting for Derivative Instruments and Hedging Activities* and SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133*) which establishes accounting and reporting standards for derivative instruments and requires that all derivatives be carried at fair value on the consolidated statements of financial position. Changes in the fair value of derivative instruments are reflected as a change in net unrealized gains or losses on investments in the consolidated statements of activities and changes in net assets for the year ended March 31, 2010, following the guidance of ASC Topic 954 (formerly known as Statement of Position 02-2, *Accounting for Derivative Instruments and Hedging Activities by Not-for-Profit Health Care Organizations, and Clarification of the Performance Indicator*), which ESC adopted for the year ended March 31, 2005, (Note 4).

Statutory Reserve Requirements – ESC is subject to statutory reserve requirements. At March 31, 2010, ESC's reserves, as calculated in accordance with the Continuing Care Contract Statutes of the California Health and Safety Code, were in excess of such requirements.

Tax-Exempt Status – ESC is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board.

ESC adopted the provisions of the ASC Topic 740-10, *Income Taxes*, (formerly known as FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*) relating to accounting for uncertain tax positions on April 1, 2009, which had no financial statement impact to ESC. ESC recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. ESC recognizes interest and penalties related to income tax matters in operating expenses.

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. These estimates and assumptions 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 revenue and expenses during the reporting period. Actual results could differ from those estimates. Major items requiring estimates and assumptions include deferred revenues and amortization of entrance fees, accrued self-insurance liabilities, obligation to provide future services, valuation of derivative instruments, valuation of financial instruments, and valuation of pension and retirement obligations.

Fair Value of Financial Instruments – The carrying amounts reported in the balance sheets for cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities and long-term debt approximate fair value.

New Accounting Pronouncements – In March 2008, the Financial Accounting Standards Board (“FASB”) issued a statement on disclosures about derivative instruments and hedging activities, ASC Topic 815 (formerly known as Statement of Financial Accounting Standards (“SFAS”) No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* (SFAS 161). ASC Topic 815 amends and expands the disclosure requirements for derivative instruments and hedging activities by requiring enhanced disclosures about how and why ESC uses derivative instruments, how derivative instruments and related hedged items are accounted for, and how derivative instruments and related hedged items affect financial position, financial performance, and cash flows. ESC has implemented this statement for the fiscal year ended March 31, 2010.

EPISCOPAL SENIOR COMMUNITIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In September 2006, FASB issued ASC Topic 820 (formerly known as SFAS No. 157, *Fair Value Measurements*) that defines fair value, establishes a single definition of fair value and a framework for measuring fair value that is intended to result in increased consistency and comparability in fair value measurements. ASC Topic 820 was originally effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years with early adoption permitted. In early 2008, the FASB issued a staff position which delayed by one year the effective date of the guidance for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). ESC elected to adopt this deferral.

On April 1, 2009, ESC adopted the authoritative guidance on fair value measurements for nonfinancial assets and liabilities that was deferred as noted above. With the expiration of the deferral, the fair value measurement and disclosure requirements contained in the guidance now apply for the first time and impact ESC in the following areas:

- Non-financial assets and non-financial liabilities initially measured at fair value in a business combination or other new basis event, but not measured at fair value in subsequent periods
- Goodwill and indefinite-lived intangible assets measured at fair value for impairment assessment
- Non-financial assets (such as real estate or donations in kind) recorded at fair value at the time of donation
- Non-financial long-lived assets measured at fair value for impairment assessment
- Asset retirement obligations
- Non-financial liabilities for exit or disposal activities initially measured at fair value

The adoption of this guidance had no material effect on ESC's consolidated financial statements for the fiscal year ended March 31, 2010.

In May 2009, the FASB issued ASC Topic 855 (formerly known as SFAS No. 165, *Subsequent Events*) which applies to interim or annual financial periods ending after June 15, 2009. The objective is to establish general standards of accounting for and disclosures of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. ASC Topic 855 sets forth the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which the entity should recognize events or transactions occurring after the balance sheet date, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. ESC has implemented the statement for the fiscal year ended March 31, 2010, (Note 10).

In June 2009, the FASB issued "The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles" (the "Codification"). The Codification establishes one level of authoritative GAAP and is effective for annual financial statements issued after September 15, 2009. Adoption of the Codification will not have an impact on ESC's consolidated financial statements but will change the references to accounting pronouncements in the notes to those statements.

Reclassifications – Certain financial statement reclassifications have been made to prior year balances for comparability purposes and had no impact on net income or net assets as previously reported.

NOTE 2 – MARKETABLE SECURITIES

ASC Topic 820 (formerly known as SFAS No. 157, *Fair Value Measurements*) defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC Topic 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. ASC Topic 820 describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.

EPISCOPAL SENIOR COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheet at March 31, 2010 and 2009, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Marketable Securities – Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include exchange traded equities and cash equivalents included in money market funds.

Interest Rate Swap Agreement and Guaranteed Investment Contract – The fair value is estimated by a third party using inputs that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying balance sheet measured at fair value on a recurring basis and the level within the ASC Topic 820 fair value hierarchy in which the fair value measurements fall at March 31:

Description	Level 1	Level 2	Level 3	Balance at March 31, 2010
Cash equivalents	\$ 84,584,464	\$ -	\$ -	\$ 84,584,464
Guaranteed investment contract	-	5,638,728	-	5,638,728
Equities	5,427,619	-	-	5,427,619
Government securities	6,645,486	-	-	6,645,486
Corporate bonds	696,426	-	-	696,426
Interest rate swaps	-	586,051	-	586,051
Total	\$ 97,353,995	\$ 6,224,779	\$ -	\$ 103,578,774

Description	Level 1	Level 2	Level 3	Balance at March 31, 2009
Cash equivalents	\$ 24,517,980	\$ -	\$ -	\$ 24,517,980
Guaranteed investment contract	-	6,015,660	-	6,015,660
Equities	50,911,941	-	-	50,911,941
Government securities	5,782,370	-	-	5,782,370
Corporate bonds	473,530	-	-	473,530
Interest rate swaps	-	(603,023)	-	(603,023)
Total	\$ 81,685,821	\$ 5,412,637	\$ -	\$ 87,098,458

EPISCOPAL SENIOR COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Marketable securities at fair value consisted of the following at March 31:

	2010	2009
Cash equivalents	\$ 84,584,464	\$ 24,517,980
Guaranteed investment contract	5,638,728	6,015,660
Government securities	6,645,486	5,782,370
Corporate bonds	696,426	473,530
Stocks	3,868,705	16,517,727
Mutual funds	1,558,914	34,394,214
Total	102,992,723	87,701,481
Less assets held by bond indenture trustee and restricted for construction and debt service	(22,867,531)	(23,016,956)
Less assets held as funded reserves for replacement and insurance	(541,107)	(357,472)
Less marketable securities included in restricted investments (Note 5)	(18,886,323)	(13,696,528)
Less marketable securities included in cash and cash equivalents	(60,034,897)	-
Total marketable securities	<u>\$ 662,865</u>	<u>\$ 50,630,525</u>

The following disclosure is made pursuant to section 1790(a)(3) of the California Health & Safety Code: The Board of Directors have identified certain contingencies listed below to which the unrestricted net assets of ESC may be exposed; and, therefore, directed that prudent reserves be established as a safeguard against such contingencies. Although not restricted in accordance with ASC Topic 958 (formerly known as SFAS No. 116, *Accounting for Contributions Received and Contributions Made*), Board of Directors-designated funds represent the current intentions of the Board of Directors.

	2010
Plant replacement fund	\$ 25,615,343
Income fund	18,716,229
Self-insurance fund	11,393,202
Total	<u>\$ 55,724,774</u>

Maintaining such reserves meets the needs of the continuing care retirement communities by providing a source of funds to replace plant, either in the normal course of its operations and/or with respect to uninsured losses, and to otherwise meet its obligations as they become due in periods of reduced entrance or monthly fee revenue.

In addition, the Board has designated the initial amount of \$1,000,000 to be held in the Dr. Darby Betts Fund to promote needed services to seniors either by making grants to other organizations or expanding ESC's own efforts to support seniors in the larger community and who are not residents of its retirement or affordable housing communities. This fund is jointly administered by ESC and Episcopal Diocese of California. This commitment meets the needs of the continuing care retirement communities by demonstrating a broader community benefit in support of and to preserve its tax exempt status. As of March 31, 2010, the balance of the fund was \$920,669 and \$40,000 was expended from the fund for such purposes during the year then ended.

According to the trust agreements for the Series 1998 Certificates and the Series 2000 Certificates, certain funds are to be maintained and held by a trustee, primarily for debt service. Such funds, at fair value of \$22,867,531 and \$23,016,956, were classified as assets whose use is limited and were invested in government securities at March 31, 2010 and 2009, respectively. The portion of these assets available to satisfy current debt service is shown as a current asset in the accompanying statements of financial position.

EPISCOPAL SENIOR COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table shows the gross unrealized losses and fair value of investments and assets limited as to use with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at March 31:

	Fair Value Below Cost as of March 31, 2010					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds	\$ 2,981,835	\$ (40,815)	\$ 1,251,464	\$ (63,589)	\$ 4,233,299	\$ (104,404)
Equity	342,983	(747)	2,058,713	(323,731)	2,401,696	(324,478)
Total temporarily impaired securities	<u>\$ 3,324,818</u>	<u>\$ (41,562)</u>	<u>\$ 3,310,177</u>	<u>\$ (387,320)</u>	<u>\$ 6,634,995</u>	<u>\$ (428,882)</u>

	Fair Value Below Cost as of March 31, 2009					
	Less than 12 months		12 months or greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Bonds	\$ 3,411,627	\$ (73,549)	\$ 133,363	\$ (149,105)	\$ 3,544,990	\$ (222,654)
Equity	13,141,608	(5,502,860)	29,301,143	(9,834,503)	42,442,751	(15,337,363)
Total temporarily impaired securities	<u>\$ 16,553,235</u>	<u>\$ (5,576,409)</u>	<u>\$ 29,434,506</u>	<u>\$ (9,983,608)</u>	<u>\$ 45,987,741</u>	<u>\$ (15,560,017)</u>

The fair-market value of these investments has declined due to recent disruption in the financial markets, changes in interest rates, changes in economic conditions, and changes in market outlook for various industries, among others. The securities disclosed above have not met the criteria for recognition of other than temporary impairment under management's policy. ESC follows a policy of evaluating securities for impairment which considers available evidence in evaluating potential impairment of its investments. This review considers the severity and duration of the decline in market value, the materiality of the losses on an individual security in relation to the entire portfolio, the volatility of the security's market price, third-party analyst reports, credit rating changes, and regulatory or legal action changes, among other factors. Once a decline in fair value is determined to be other-than-temporary, an impairment charge is recorded to investment loss and a new cost basis in the investment is established. For the years ended March 31, 2010 and 2009, no securities were determined to be other-than-temporarily impaired.

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at March 31:

	2010	2009
Buildings	\$ 311,186,982	\$ 305,896,248
Furniture and equipment	38,777,312	37,723,362
Total	349,964,294	343,619,610
Less accumulated depreciation	(169,314,916)	(154,258,555)
Total	180,649,378	189,361,055
Land	30,995,180	33,151,821
Construction in progress	1,449,665	400,292
Total	<u>\$ 213,094,223</u>	<u>\$ 222,913,168</u>

Depreciation expense included in operations was \$15,126,759 and \$14,546,818 for 2010 and 2009, respectively.

EPISCOPAL SENIOR COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LONG-TERM DEBT

Long-term debt consisted of the following at March 31:

	<u>2010</u>	<u>2009</u>
ABAG Finance Authority for Nonprofit Corporations, Variable Rate Certificates of Participation, Series 2000, dated February 17, 2000, in the original amount of \$33,250,000; variable interest rate of .25% at March 31, 2010, paid semiannually; principal paid annually at February 1; maturing on February 1, 2025, subject to earlier tender.	\$ 23,720,000	\$ 24,855,000
ABAG Finance Authority for Nonprofit Corporations, Refunding Revenue Certificates of Participation, Series 1998, dated June 1, 1998, in the original amount of \$116,706,000; interest from 5.00% to 5.35% paid semiannually; principal paid annually at July 1; maturing in installments at July 1, 2010, July 1, 2013, and July 1, 2018.	65,754,725	71,362,265
Mortgage payable to and insured by Department of Housing and Urban Development ("HUD") secured by a first deed of trust on real property of Presidio Gate Apartments; payable in monthly installments of \$28,093 including interest at 9.25%; due in full December 1, 2025.	2,791,362	2,866,377
Mortgage Note, of \$6,870,900, non-interest bearing secured by first deed of trust on the property of Jennings Court and repayment not required if Jennings Court remains available for very low income elderly persons in accordance with Section 202 of the Housing Act of 1959. Provided that the property has remained available to eligible persons for occupancy until February 2048, the Mortgage Note shall be deemed to be paid and discharged.	6,870,900	6,870,900
Mortgage payable, of \$4,985,230, \$4,955,315 used to date, to The Housing Authority of the City of Santa Rosa ("SRHA") secured by deed of trust on Jennings Court with a 3% simple interest rate per annum; principal and accrued interest payable in full in February 2048.	4,955,315	4,928,063
Subsidy repayment payable to Sonoma National Bank ("SNB") through the AHP Loan program, non-interest bearing, secured by a deed of trust on Jennings Court. Principal amount will be forgiven in full on June 1, 2023, as long as the property has maintained the affordability limits as required by the AHP Program.	<u>216,000</u>	<u>216,000</u>
Total	104,308,302	111,098,605
Less current portion	<u>(29,817,411)</u>	<u>(30,660,157)</u>
Long-term debt	<u>\$ 74,490,891</u>	<u>\$ 80,438,448</u>

The Series 1998 and Series 2000 Certificates are collateralized by an unsecured pledge of gross revenues from the continuing care retirement communities.

On April 3, 2002, ESC entered into an interest rate swap agreement whereby, effective July 1, 2005, approximately \$41 million notional of the 5.125% ABAG Finance Authority Series 1998 Revenue Certificates of Participation due July 1, 2018, was swapped for a variable interest rate based on the Bond Market Association ("BMA") minus .50%-.57%. On April 3, 2002, ESC entered into a second swap agreement whereby, effective July 1, 2005, ESC will receive a fixed rate of .20% on a notional amount of approximately \$41 million and pay the counterparty the absolute value of the excess of BMA over 72% of the 1 month LIBOR, if any. At March 31, 2010 and 2009, ESC has reflected the interest rate swaps at a fair value of \$586,051 and \$(603,023) in deferred charges and other assets and a corresponding unrealized gain (loss) in the statement of activities and changes in net assets of \$1,189,074 and \$(677,833) for the years ended March 31, 2010 and 2009, respectively.

ESC is subject to certain financial covenants related to its 1998 and 2000 series debt. ESC was in compliance with these financial covenants as of March 31, 2010. ESC met the liquidity portion of said covenants but failed to meet the debt service coverage portion of the covenants for the fiscal year ended March 31, 2009, which are 1.20x and 1.25x coverage, respectively. ESC received a one-time waiver under the reimbursement agreement from Wells Fargo Bank which issued their letter of credit in support of the variable rate 2000 series. As required, ESC also engaged a management consultant and implemented the consultant's recommendations as appropriate.

**EPISCOPAL SENIOR COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

Annual maturities of long-term debt consist of the following:

Year Ending March 31,		
2011	\$	29,817,411
2012		7,655,366
2013		8,029,089
2014		8,438,653
2015		8,864,141
Thereafter		42,513,917
Total		105,318,577
Less amount representing unamortized discount		(1,010,275)
Net	\$	104,308,302

Due to certain provisions of the Reimbursement Agreement which relate only to the Series 2000 Variable Rate Certificates of Participation (the "Bonds"), the entire outstanding balance of the Bonds is presented as a current liability; and the scheduled maturities in 2011 include the full amounts due under the Bonds. Notwithstanding that Bonds mature on February 1, 2025, such presentation is required by ASC 470-10-45 which deals with presentation of debt that is subject to an earlier tender.

ESC had an unsecured, unused and available line of credit of \$5,000,000, with an interest rate of prime with an option to convert to LIBOR – based rate, which expired on October 1, 2008.

NOTE 5 – RESTRICTED NET ASSETS

Restricted net assets in the consolidated financial statements at March 31, 2010 and 2009, are available for the following:

	2010		
	Permanently Restricted	Temporarily Restricted	Total
Assistance and other	\$ 495,636	\$ 10,532,115	\$ 11,027,751
Deferred contribution to pooled annuities	-	14,000	14,000
Total restricted net assets	\$ 495,636	\$ 10,546,115	\$ 11,041,751

	2009		
	Permanently Restricted	Temporarily Restricted	Total
Assistance and other	\$ 410,503	\$ 8,259,332	\$ 8,669,835
Deferred contribution to pooled annuities	-	151,000	151,000
Total restricted net assets	\$ 410,503	\$ 8,410,332	\$ 8,820,835

Assistance funds have been established from donations and bequests. Management defines assistance provided to residents as the difference between prevailing entry and monthly maintenance fees and the fees charged assisted residents, which amounted to approximately \$772,173 and \$652,844 for 2010 and 2009, respectively.

EPISCOPAL SENIOR COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – OPERATING LEASES

ESC is obligated under various equipment and building operating leases expiring at various dates through 2014. Rental expense included in operations was \$469,368 and \$438,197 for 2010 and 2009, respectively. Future minimum rental payments required under noncancelable leases as of March 31, 2010, consist of the following:

<u>Year Ending March 31,</u>	
2011	\$ 475,198
2012	489,459
2013	504,159
2014	<u>300,266</u>
Total	<u><u>\$ 1,769,082</u></u>

NOTE 7 – RETIREMENT PLAN

ESC has a defined benefit pension plan which provides benefits under retirement annuity contracts. Salaried and hourly employees who have attained the age of 21 and have performed 1,000 hours of service in the plan year are eligible to participate in the plan upon completion of one year continuous employment. Benefits are based on years of service and compensation prior to retirement. ESC makes all contributions, which are funded based on actuarially determined amounts. Amortization is based on the average remaining lives of active employees.

EPISCOPAL SENIOR COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A reconciliation of the plan's benefit obligations, fair value of assets, funded status, and amounts recognized in ESC's consolidated statements of financial position is as follows as of March 31:

	2010	2009
Change in benefit obligation:		
Benefit obligation, beginning of year	\$ 20,154,300	\$ 19,714,378
Service cost	940,227	911,438
Interest cost	1,438,049	1,306,294
Actuarial (gain) loss	4,941,184	(109,504)
Assumption changes	(879,499)	(868,545)
Benefits paid	(254,515)	(799,761)
Benefit obligation at measurement date	26,339,746	20,154,300
Change in plan assets:		
Fair value of plan assets, beginning of year	12,274,893	18,499,575
Actual return on plan assets	4,772,069	(6,344,392)
Employer contribution	2,010,368	942,232
Expenses	-	(22,761)
Benefits paid	(879,499)	(799,761)
Fair value of plan assets at measurement date	18,177,831	12,274,893
Funded status at measurement date	\$ (8,161,915)	\$ (7,879,407)
Amounts recognized in the statement of financial position consist of:		
Noncurrent liabilities	\$ (8,161,915)	\$ (7,879,407)
Amounts recognized in unrestricted net assets consist of:		
Unrecognized net actuarial loss	\$ 9,357,843	\$ 8,705,857
Unrecognized prior service cost	(1,056,337)	(886,136)
Amounts recognized in unrestricted net assets at measurement date	8,301,506	7,819,721
Accumulated benefit obligation	\$ 25,737,257	\$ 19,849,775

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plans with accumulated benefit obligation in excess of plan assets were \$26,339,746, \$25,737,257 and \$18,177,831 as of March 31, 2010 and \$20,154,300, \$19,849,775 and \$12,274,893 as of March 31, 2009, for a net funded deficit of \$8,161,915 and \$7,879,407, respectively.

EPISCOPAL SENIOR COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The components of net periodic benefit cost included as part of employee costs in ESC's combined statement of operations and changes in net assets are as follows for the years ended March 31:

	<u>2010</u>	<u>2009</u>
Service cost	\$ 940,227	\$ 911,438
Interest cost	1,438,049	1,306,294
Expected return on plan assets	(993,591)	(1,486,046)
Amortization of prior service cost	(84,314)	(84,314)
Amortization of net (gain) loss	510,720	-
Net periodic benefit cost	<u>1,811,091</u>	<u>647,372</u>
Other changes in plan assets and benefit obligations recognized in unrestricted net assets:		
Net actuarial loss	1,162,706	6,875,150
Prior service cost/(credit)	(254,515)	-
Amortization of net gain/(loss)	(510,720)	-
Amortization of prior service (cost)/credit	<u>84,314</u>	<u>84,314</u>
Amounts recognized in unrestricted net assets at measurement date	<u>481,785</u>	<u>6,959,464</u>
Total recognized in net periodic benefit cost and unrestricted net assets at measurement date	<u>\$ 2,292,876</u>	<u>\$ 7,606,836</u>

The expected rate of return on plan assets of 8% at March 31, 2010, is based on a long-term investment portfolio of 65% equities, 29% fixed income securities and 6% real estate investments. Real rates of return (before inflation) for these categories are assumed to be 9%, 5.75% and 7%, respectively.

The following assumptions were used for the March 31 measurement date:

	<u>2010</u>	<u>2009</u>
Actuarial present value of the benefit obligation		
Weighted-average discount rate	6.10%	7.30%
Rate of increase in future compensation levels	3.50%	3.50%
Long-term rate of return on plan assets	8.00%	8.00%
Net periodic benefit cost		
Weighted-average discount rate	7.30%	6.80%
Rate of increase in future compensation levels	3.50%	3.50%
Long-term rate of return on plan assets	8.00%	8.00%
Pension plan assets are as follows:		
	<u>2010</u>	<u>2009</u>
Equity securities	65%	62%
Fixed income securities	29%	34%
Real estate	<u>6%</u>	<u>4%</u>
Total	<u>100%</u>	<u>100%</u>

EPISCOPAL SENIOR COMMUNITIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The fair value of ESC's pension plan assets at March 31, 2010, by asset category are as follows:

Description	Level 1	Level 2	Level 3	Balance at March 31, 2010
Equity securities	\$ 11,399,680	\$ 420,105	\$ -	\$ 11,819,785
Fixed income securities	5,327,587	-	-	5,327,587
Real estate	1,030,459	-	-	1,030,459
Total	\$ 17,757,726	\$ 420,105	\$ -	\$ 18,177,831

Explanation of Investment Strategies and Policies – ESC employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by outperforming plan liabilities over the long run. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks as well as growth, value, small and large capitalizations. Investment risk is measured and monitored on an ongoing basis through annual liability measurements, periodic asset/liability studies and quarterly investment portfolio reviews.

ESC expects to contribute \$1,866,000 to its pension plan in the fiscal year beginning April 1, 2010 and ending March 31, 2011.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2011	\$ 1,150,000
2012	\$ 1,180,000
2013	\$ 1,250,000
2014	\$ 1,350,000
2015	\$ 1,480,000
Years 2016- 2020	\$ 9,490,000

ESC also maintains for certain employees a Supplemental Deferred Compensation Plan ("Supplemental Plan") which is a non-qualified, deferred compensation plan which provides a defined contribution benefit pursuant to 409A and 457(f) of the Internal Revenue Code. Some participants were awarded a Discretionary Retention Benefit in 2007 as an opening balance in the Supplemental Plan and all participants will be awarded an Annual Retention Benefit award in each subsequent year. Participants will vest in the opening balance and all subsequent awards on the earlier of their death or disability, reaching the age of 65, or five years after the award of the Discretionary Retention Benefit. The accrued liability for fiscal years 2010 and 2009 was \$973,006 and \$963,946, respectively.

NOTE 8 – RELATED PARTIES

During fiscal years 2010 and 2009, ESC purchased general and professional liability insurance for \$465,702 and \$504,055, respectively, from an insurance company in which ESC is a shareholder. At March 31, 2010 and 2009, ESC's investment was \$301,104 for both years. This investment is recorded at cost because it represents less than 5% of the shares of the insurance company.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

Litigation – ESC is party to various claims and legal actions in the normal course of business. In the opinion of management, ESC has substantial meritorious defenses to pending or threatened litigation and, based upon current facts and circumstances, the resolution of these matters is not expected to have a material adverse effect on the financial position of ESC.

EPISCOPAL SENIOR COMMUNITIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Asbestos – ESC is aware of the existence of asbestos in certain of its buildings. ESC has not recorded a liability for any asbestos abatement costs because the cost cannot be reasonably estimated at this time. At such time in the future that plans are made to make changes to structures with asbestos and the related asbestos removal cost estimates are completed, ESC will record an estimate of the costs of the required asbestos abatement.

Affiliation with LGSC – As a part of the affiliation between JTM and LGSC, ESC made arrangements to put in place and to guarantee a \$4,000,000 line of credit from Wells Fargo Bank to LGI. In the event that it becomes necessary for LGI to draw on the line of credit and is unable to make principal or interest payments, ESC and JTM are jointly and severally liable to make the payments on LGI's behalf. Any such payments would be repayable to the guarantors by LGI under the terms of the affiliation agreement. LGI has not made any draws on the line of credit.

Operating Deficit Guarantee – With respect to OCT's obligations as the General Partner of OCLP, ESC has guaranteed that it will advance funds to OCT in an amount necessary for OCT to make the required Operating Deficit Contribution when such Operating Deficit cannot be satisfied from Partnership funds including OCLP's Operating Reserve and OCT does not have sufficient funds to make an Operating Deficit Contribution to OCLP. The advances shall be interest free and payable out of Capital proceeds. The operating deficit period begins after the completion date and ends on the date that the following have occurred: (1) the Project has operated at Break-even for at least three consecutive calendar years following the stabilization date of the Project; and (2) the balance in the Operating Reserve equals or exceeds the Operating Reserve amount. As of March 31, 2010, no advances have been made under the agreement.

Credit Adjuster and Additional Advance Guaranty – With respect to OCT's obligations as the general partner of OCLP, ESC has guaranteed to advance funds to OCT in the amount necessary for OCT to make the required Credit Adjuster Advance or Additional Advance. The Credit Adjuster Advance is limited to \$835,799.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are available to be issued. ESC recognizes in the consolidated financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing the consolidated financial statements. ESC's consolidated financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after the balance sheet date and before consolidated financial statements are available to be issued.

ESC has evaluated subsequent events through June 24, 2010 which is the date the consolidated financial statements are available to be issued.

SUPPLEMENTAL INFORMATION



EPISCOPAL SENIOR COMMUNITIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
March 31, 2010

	Episcopal Senior Communities and ESC Foundation	Presidio Gate Apartments	Jennings Senior Housing	Elimination	Consolidated Episcopal Senior Communities
ASSETS					
Current assets					
Cash and cash equivalents	\$ 65,356,541	\$ 86,991	\$ 22,633	\$ -	\$ 65,466,165
Assets held by bond indenture trustee for current debt service	8,067,626	-	-	-	8,067,626
Marketable securities	662,865	-	-	-	662,865
Receivables, net of allowance for doubtful accounts	10,526,401	2,850	-	(964,250)	9,565,001
Prepaid expenses, deposits, and other assets	1,121,967	12,886	14,691	-	1,149,544
Total current assets	<u>85,735,400</u>	<u>102,727</u>	<u>37,324</u>	<u>(964,250)</u>	<u>84,911,201</u>
Assets whose use is limited					
Assets held by bond indenture trustee and restricted for debt service	22,867,531	-	-	-	22,867,531
Less portion available to satisfy current debt service	<u>(8,067,626)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,067,626)</u>
Noncurrent portion	14,799,905	-	-	-	14,799,905
Funded reserves for replacement and insurance	-	469,211	71,896	-	541,107
Restricted investments	<u>18,813,812</u>	<u>52,347</u>	<u>10,164</u>	<u>-</u>	<u>18,876,323</u>
Total long-term assets whose use is limited	<u>33,613,717</u>	<u>521,558</u>	<u>82,060</u>	<u>-</u>	<u>34,217,335</u>
Property and equipment, net of accumulated depreciation	198,782,114	2,471,880	11,840,229	-	213,094,223
Deferred charges and other assets	10,845,893	-	-	(21,122)	10,824,771
JTM note receivable	<u>10,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000,000</u>
Total assets	<u>\$ 338,977,124</u>	<u>\$ 3,096,165</u>	<u>\$ 11,959,613</u>	<u>\$ (985,372)</u>	<u>\$ 353,047,530</u>

EPISCOPAL SENIOR COMMUNITIES
CONSOLIDATING STATEMENT OF FINANCIAL POSITION
March 31, 2010

	Episcopal Senior Communities and ESC Foundation	Presidio Gate Apartments	Jennings Senior Housing	Elimination	Consolidated Episcopal Senior Communities
LIABILITIES AND NET ASSETS					
Current liabilities					
Accounts payable	\$ 4,688,780	\$ 38,144	\$ 53,753	\$ (77,766)	\$ 4,702,911
Accrued payroll and payroll taxes	2,646,505	16,410	3,398	-	2,666,313
Current portion of long-term debt	29,735,000	82,411	-	-	29,817,411
Accrued interest	877,212	22,970	-	-	900,182
Refundable deposits	179,500	14,414	18,143	-	212,057
Self-insurance liabilities and other liabilities	4,098,815	10,983	3,582	-	4,113,380
Total current liabilities	42,225,812	185,332	78,876	(77,766)	42,412,254
Pension benefit obligation	9,207,441	-	-	-	9,207,441
Long-term debt, net of current portion	59,739,725	2,708,951	12,042,215	-	74,490,891
Deferred revenue from entrance fees	152,850,888	-	-	-	152,850,888
Deferred revenue from investment contract	2,228,182	-	-	-	2,228,182
Other liabilities	5,172,289	-	634,805	(907,606)	4,899,488
Total liabilities	271,424,337	2,894,283	12,755,896	(985,372)	286,089,144
Net assets					
Unrestricted	56,645,443	149,535	(878,343)	-	55,916,635
Temporarily restricted	10,411,708	52,347	82,060	-	10,546,115
Permanently restricted	495,636	-	-	-	495,636
Total net assets	67,552,787	201,882	(796,283)	-	66,958,386
Total liabilities and net assets	\$ 338,977,124	\$ 3,096,165	\$ 11,959,613	\$ (985,372)	\$ 353,047,530

EPISCOPAL SENIOR COMMUNITIES
CONSOLIDATING STATEMENT OF ACTIVITIES BY LOCATION
Year Ending March 31, 2010

	Canterbury Woods	St. Paul's Towers	Los Gatos Meadows	Spring Lake Village	San Francisco Towers	Central Office, ESC Foundation	Subtotal	Presidio Gate Apartments	Jennings Senior Housing	Eliminations	Total
CHANGES IN UNRESTRICTED NET ASSETS											
Revenues and gains											
Resident fees	\$ 6,690,893	\$ 10,941,122	\$ 6,399,014	\$ 12,527,444	\$ 14,518,912	\$ 28,000	\$ 51,105,385	\$ -	\$ -	\$ -	\$ 51,105,385
Amortization of deferred revenue from entrance fees	1,973,992	2,428,076	1,473,950	6,134,390	8,018,460	-	20,028,868	-	-	-	20,028,868
Nursing center	1,198,402	4,003,063	2,237,909	5,277,069	4,023,060	-	16,739,503	-	-	-	16,739,503
Outside and other medical fees	115,161	129,685	61,393	938,319	333,232	-	1,577,790	-	-	-	1,577,790
Affordable housing fees and rents	-	-	-	-	-	-	-	1,146,559	369,430	-	1,515,989
Other	-	-	-	-	-	152,306	152,306	462	43	-	152,811
Net assets released from restriction for assistance and operations	-	-	-	-	-	1,628,434	1,628,434	-	-	-	1,628,434
Total revenues and gains	9,978,448	17,501,946	10,172,266	24,877,222	26,893,664	1,808,740	91,232,286	1,147,021	369,473	-	92,748,780
Expenses											
Nursing expenses	1,886,219	3,057,118	2,595,319	4,784,412	3,629,557	-	15,952,625	-	-	-	15,952,625
Outside and other medical expenses	438,727	757,456	899,390	1,648,659	1,043,930	-	4,788,162	-	-	-	4,788,162
Dining services	1,976,516	2,917,308	1,957,756	3,779,975	4,226,239	-	14,857,794	-	-	-	14,857,794
Environmental services	625,725	961,337	537,796	1,048,711	1,297,049	-	4,470,618	-	-	-	4,470,618
Maintenance	623,626	1,299,409	893,479	1,235,301	2,064,419	-	6,116,234	149,635	41,932	-	6,307,801
General and administrative expenses	752,449	1,319,963	885,524	1,303,078	1,228,329	6,203,243	11,692,586	380,155	193,056	78,540	12,344,337
Allocated management and accounting service fees	925,090	1,387,629	991,162	1,718,025	1,585,869	(6,607,775)	-	42,000	36,340	(78,540)	-
Marketing	346,144	674,097	385,592	578,516	561,033	-	2,545,382	-	-	-	2,545,382
Utility expenses	514,016	970,913	549,031	1,270,126	1,212,565	-	4,516,651	57,503	46,552	-	4,620,706
Other	138,902	313,332	286,140	332,018	362,370	4,079,581	5,512,343	1,716	71,902	-	5,585,961
Depreciation and amortization	1,455,988	3,577,386	2,036,437	2,981,872	4,146,532	432,530	14,630,745	186,825	309,189	-	15,126,759
Interest	47,273	140,479	75,600	637,382	1,853,406	1,200,251	3,954,391	262,863	148,659	-	4,365,913
Total expenses	9,730,675	17,376,427	12,093,226	21,318,075	23,211,298	5,307,830	89,037,531	1,080,697	847,830	-	90,966,058
(LOSS) INCOME BEFORE INVESTMENT INCOME AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS	247,773	125,519	(1,920,960)	3,559,147	3,682,366	(3,499,090)	2,194,755	66,324	(478,357)	-	1,782,722
INVESTMENT INCOME	-	-	-	-	-	2,047,197	2,047,197	-	-	-	2,047,197
NET REALIZED GAIN ON INVESTMENTS	-	-	-	-	-	13,114,371	13,114,371	-	-	-	13,114,371
NET INCOME (LOSS)	247,773	125,519	(1,920,960)	3,559,147	3,682,366	11,662,478	17,356,323	66,324	(478,357)	-	16,944,290
NET UNREALIZED LOSS ON INVESTMENTS	-	-	-	-	-	569,728	569,728	-	-	-	569,728
WRITE OFF OF INTANGIBLE AIR RIGHTS	-	-	-	-	-	(1,350,675)	(1,350,675)	-	-	-	(1,350,675)
CHANGE IN MINIMUM PENSION LIABILITY	-	-	-	-	-	(519,900)	(519,900)	-	-	-	(519,900)
INCREASE IN UNRESTRICTED NET ASSETS	\$ 247,773	\$ 125,519	\$ (1,920,960)	\$ 3,559,147	\$ 3,682,366	\$ 10,361,631	\$ 16,055,476	\$ 66,324	\$ (478,357)	\$ -	\$ 15,643,443

EPISCOPAL SENIOR COMMUNITIES
EPISCOPAL SENIOR COMMUNITIES FOUNDATION
SUMMARIZED BALANCE SHEET INFORMATION
March 31, 2010 and 2009

	2010	2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 10,754,912	\$ 2,768,228
Marketable securities	-	6,942,993
Total current assets	10,754,912	9,711,221
Other assets		
Investments held in trust	8,058,900	3,924,518
Total	\$ 18,813,812	\$ 13,635,739
LIABILITIES AND NET ASSETS		
Current liabilities		
Liability for payments to trust beneficiaries	\$ 7,906,468	\$ 4,875,693
Net assets		
Temporarily donor-restricted	10,411,708	8,349,543
Permanently donor-restricted	495,636	410,503
Total net assets	10,907,344	8,760,046
Total	\$ 18,813,812	\$ 13,635,739

EPISCOPAL SENIOR COMMUNITIES
EPISCOPAL SENIOR COMMUNITIES FOUNDATION
SUMMARIZED STATEMENT OF ACTIVITIES INFORMATION
Years Ended March 31, 2010 and 2009

	<u>2010</u>	<u>2009</u>
REVENUES AND TRANSFERS		
Community funds	\$ 277,875	\$ 351,705
Assistance funds	72,357	106,153
Capital funds	600	28,841
Contributions from ESC	404,461	378,636
Deferred gifts net of liability	270,615	969,030
Investment income	454,927	375,345
Net realized gains (losses) on investments	852,051	(562,473)
Net unrealized gains (losses) on investments	1,847,307	(4,029,617)
Total revenues and transfers	<u>4,180,193</u>	<u>(2,382,380)</u>
EXPENSES		
Social programs disbursements		
Community	207,863	316,722
Assistance	772,173	652,844
Capital	-	5,030
Trust payments	648,398	558,197
Total programs expenses	<u>1,628,434</u>	<u>1,532,793</u>
Administrative expenses	<u>404,461</u>	<u>378,636</u>
Total expenses	<u>2,032,895</u>	<u>1,911,429</u>
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	<u>\$ 2,147,298</u>	<u>\$ (4,293,809)</u>

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

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APPENDIX C

SUMMARY OF PRINCIPAL DOCUMENTS

THE MASTER INDENTURE, THE BOND INDENTURE, THE LOAN AGREEMENT AND THE DEEDS OF TRUST

Brief descriptions of the Master Indenture, the Bond Indenture, the Loan Agreement and the Deeds of Trust are included hereafter in this Appendix C of the Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Master Indenture, the Bond Indenture, the Loan Agreement and the Deeds 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 2011 Bonds at the offices of the Authority and thereafter at the offices of the Bond Trustee. All references to the Series 2011 Bonds are qualified in their entirety by reference to the definitive forms thereof and the information with respect thereto included in the Bond Indenture.

DEFINITIONS OF CERTAIN TERMS

“501(c)(3) Organization” means an organization described in Section 501(c)(3) of the Code.

“Act” means the Joint Exercise of Powers Act, constituting Chapter 5 of Division 7 of Title 1 of the Government Code of the State of California, as now in effect and as it may from time to time hereafter be amended or supplemented.

“Additional Indebtedness” means any Indebtedness incurred subsequent to the execution and delivery of the Master Indenture other than Obligation No. 1, Obligation No. 2 and Obligation No. 3.

“Affiliate” means a corporation, partnership, joint venture, association, limited liability company, business trust or similar entity (a) which controls, is controlled by or is under common control with, directly or indirectly, a Member; or (b) a majority of the members of the Directing Body of which are members of the Directing Body of a Member. For the purposes of this definition, control means with respect to: (a) a corporation having stock, the ownership, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the directors of such corporation; (b) a not for profit corporation not having stock, having the power to elect or appoint, directly or indirectly, a majority of the members of the Directing Body of such corporation; or (c) any other entity, the power to direct the management of such entity through the ownership of at least a majority of its voting securities or the right to designate or elect at least a majority of the members of its Directing Body, by contract or otherwise. For the purposes of this definition, “Directing Body” means with respect to: (a) a corporation having stock, such corporation’s board of directors and the owners, directly or indirectly, of more than 50% of the securities (as defined in Section 2(1) of the Securities Act of 1933, as amended) of any class or classes, the holders of which are ordinarily, in the absence of contingencies, entitled to elect a majority of the corporation’s directors (both of which groups shall be considered a Directing Body); (b) a not for profit corporation not having stock, such corporation’s members if the members have complete discretion to elect the corporation’s directors, or the corporation’s directors if the corporation’s members do not have such discretion; and (c) any other entity, its governing board or body. For the purposes of this definition, all references to directors and members shall be deemed to include all entities performing the function of directors or members however denominated.

“Annual Debt Service” means for each Fiscal Year the aggregate amount (without duplication) of principal and interest scheduled to become due (either by maturity or by mandatory redemption) and

sinking fund payments required to be paid in that Fiscal Year on all Long-Term Indebtedness, less any amounts on irrevocable deposit in escrow to be applied during that Fiscal Year to pay principal or interest on Long-Term Indebtedness; provided that (i) any annual fees payable in respect of a credit facility issued to secure any series of Related Bonds, if any (other than annual fees to be paid from proceeds of a bond issue escrowed for such purpose) shall be included in the determination of Annual Debt Service; and (ii) to the extent an Interest Rate Agreement has been entered into in connection with any particular Indebtedness, the actual debt service paid after the effect of payments made to or received from the provider of the Interest Rate Agreement shall be included in the determination of Annual Debt Service. Whenever the term “Annual Debt Service” is used in the calculation of a Debt Service Coverage Ratio, any Guaranties shall be included only to the extent there was an actual payment on the Guaranty in such Fiscal Year.

“*Authority*” means the ABAG Finance Authority for Nonprofit Corporations, a joint exercise of powers authority, or its successors and assigns.

“*Authorized Denomination*” means \$5,000 and integral multiples thereof.

“*Authorized Representative*” means with respect to each Member, the chairperson of its Governing Body or its chief executive officer or its chief financial officer or any other person designated an authorized representative of such Member by a Certificate of such Member signed by the chairperson of its Governing Body or its chief executive officer or chief financial officer and filed with the Master Trustee.

“*Balloon Indebtedness*” means Long-Term Indebtedness of a Member, 25% or more of the principal of which becomes due (either by maturity or mandatory redemption) during any period of 12 consecutive months, which portion of the principal is not required by the documents governing such Indebtedness to be amortized by redemption prior to such date.

“*Beneficiary*” means U.S. Bank National Association, as Master Trustee and Beneficiary under the Deed of Trust.

“*Bond Financed Property*” means all of the property of the Corporation financed or refinanced with the proceeds of the Bonds and the Series 1998 COPs.

“*Bond Indenture*” means the Bond Trust Indenture dated as of October 1, 2011, between the Authority and the Bond Trustee, as it may from time to time be amended or supplemented.

“*Bond Register*” means the registration books of the Authority kept by the Bond Trustee to evidence the registration and transfer of Bonds.

“*Bond Registrar*” means the Bond Trustee, as keeper of the Bond Register.

“*Bond Sinking Fund*” means, for a given series of DSRF Bonds, a bond sinking fund created under such DSRF Bonds’ Related Bond Indenture for the purpose of making bond sinking fund payments.

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

“*Bond Year*” means (i) for the Series 2000 Certificates, the period of 12 consecutive months ending on July 1 of any year in which the Series 2000 Certificates are Outstanding, (ii) for the Series 2011

Bonds, the 12-month period ending on July 1 of any year in which the Series 2011 Bonds are outstanding, and (iii) for any other series of DSRF Bonds, the 12-month period ending on the date that a given year's total principal payment is due while such DSRF Bonds remain outstanding, or as otherwise specified in the Related Bond Indenture for such DSRF Bonds.

“*Bondholder*,” “*holder*” and “*owner of the Bonds*” means any registered owner of any Bond.

“*Bonds*” means the \$62,200,000 aggregate principal amount of ABAG Finance Authority for Nonprofit Corporations Revenue Refunding Bonds, Series 2011 (Episcopal Senior Communities), authorized to be issued pursuant to the terms and conditions of the Bond Indenture.

“*Book Value*” means, when used in connection with Principal Property or other Property of any Member, the value of such property, net of accumulated depreciation, as it is carried on the books of such person and in conformity with generally accepted accounting principles, and when used in connection with Principal Property 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 (i) for purposes of the Master Indenture, a day of the year which is not (a) a Saturday, Sunday or legal holiday on which banking institutions located in the city of the Corporate Trust Office are authorized by law to close or (b) a day on which the New York Stock Exchange is closed and (ii) for purposes of the Bond Indenture, any day other than (a) a Saturday, Sunday or legal holiday on which banking institutions located in the city of the designated corporate trust office of the Bond Trustee is located are required or authorized by law to remain closed or (b) a day on which the New York Stock Exchange is closed.

“*Cash and Liquid Investments*” means all unrestricted cash and liquid investment balances, including without limitation, such amounts constituting board designated funds, whether classified as current or noncurrent assets, held by the Obligated Group for any of its corporate purposes, but excluding amounts available under lines of credit and excluding amounts held by the Master Trustee, all as set forth in the most recent financial statements delivered under the Master Indenture.

“*Certificate*,” “*Statement*,” “*Request*,” “*Consent*” or “*Order*” of any Member or of the Master Trustee means, 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 shall be read and construed as a single instrument. If and to the extent required by the Bond Indenture, each such instrument shall include the statements provided for in the Bond Indenture.

“*Closing Date*” means October 27, 2011, the date of original issuance and delivery of the Bonds.

“*Code*” means (i) for purposes of the Master Indenture, the Internal Revenue Code of 1986 and the regulations issued thereunder, or any successor to the Internal Revenue Code of 1986 and (ii) for purposes of the Bond Indenture, the Internal Revenue Code of 1986, as amended from time to time. Each reference to a Section of the Code in the Bond Indenture shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such Section which are applicable to the Bonds or the use of the proceeds thereof.

“*Completion Indebtedness*” means any Long-Term Indebtedness incurred by any Member for the purpose of financing the completion of acquiring, constructing, renovating, refurbishing, equipping or

improving any project for which Long-Term Indebtedness has previously been incurred in accordance with the provisions of the Bond Indenture.

“*Construction Consultant*” means the architects, engineers, development consultant, supervising contractors or other qualified consultant selected by the Obligated Group or any Member in connection with the acquisition, installation, improvement or construction of a project or a portion thereof for which Long-Term Indebtedness has previously been incurred in accordance with the provisions of the Master Indenture, delivered to the Master Trustee in connection with the issuance of Completion Indebtedness.

“*Continuing Disclosure Agreement*” means the Continuing Disclosure Agreement dated the Closing Date, executed and delivered by the Corporation and relating to the Bonds, as originally executed and as it may from time to time be amended in accordance with the terms thereof.

“*Corporate Trust Office*” means the office of the Master Trustee at which its designated corporate trust business is conducted, which, at the date hereof, is located at Mail Stop: PD OR-P6TD, 555 SW Oak Street, Portland, Oregon 97204.

“*Corporation*” means Episcopal Senior Communities, a California nonprofit public benefit corporation, and its successors and assigns and any surviving, resulting or transferee corporation.

“*Corporation Agreements*” means the Master Indenture, the Loan Agreement, the Purchase Contract, the Deeds of Trust, the Continuing Disclosure Agreement, the First Supplemental Master Indenture, Obligation No. 3 and the Tax Exemption Agreement.

“*Current Value*” means the aggregate sum of the Book Value of personal property plus the fair market value of the real property. The fair market value of real property shall be as reflected in the most recent written report of an appraiser selected by the Corporation, which shall be an appraiser who is a member of the American Institute of Real Estate Appraisers (MAI), and the report shall be delivered to the Master Trustee (which report shall be dated not more than three years prior to the date as of which Current Value is to be calculated).

“*Days Cash on Hand*” means the amount determined by dividing (1) the Cash and Liquid Investments of the Obligated Group as of a particular date by (2) the quotient derived by dividing (a) the Obligated Group’s total operating expenses (less depreciation and amortization and other non-cash items, including, without limitation, losses on refinancing of debt, non-cash termination value of any hedging, derivative, interest rate exchange or similar contract, and any one-time charges in connection with development projects that have been abandoned by the Obligated Group) for the most recent preceding Fiscal Year for which audited financial statements have been delivered under the Master Indenture by (b) the number of days in such Fiscal Year.

“*Debt Service Coverage Ratio*” means, for any period of time, the ratio determined by dividing Income Available for Debt Service by Annual Debt Service.

“*Deeds of Trust*” means, collectively, the five documents entitled Deed of Trust, Security Agreement and Fixture Filing with Assignment of Rents and Leases, each dated as of October 1, 2011, as may be supplemented and amended from time to time, under which the Corporation has granted a lien and security interest on its Facilities to Chicago Title, to be held 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.

“*DSRF Bonds*” means Related Bonds that receive the benefit and security of the Parity Debt Service Reserve Fund pursuant to the provisions of the Master Indenture summarized in subsection (b) under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – PARITY DEBT SERVICE RESERVE FUND” below.

“*DSRF Qualification Amount*” means, for a given series of Related Bonds, the difference between the amount that the Parity Debt Service Reserve Requirement would be if such Related Bonds were included as DSRF Bonds and the then-current Parity Debt Service Reserve Requirement without such Related Bonds.

“*EMMA*” means the Electronic Municipal Market Access system as described in the Securities Exchange Act of 1934, as amended by Release No. 59062, and maintained by the Municipal Securities Rulemaking Board for purposes of Rule 15c2-12, or any similar system that is acceptable to the Securities and Exchange Commission.

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

“*Escrow Obligations*” means: (1) direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America; (2) obligations, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following: Banks for Cooperatives, Federal Intermediate Credit Banks, Federal Home Loan Bank System, Export-Import Bank of the United States, Federal Financing Bank, Federal Land Banks, Government National Mortgage Association, Farmer’s Home Administration, Small Business Administration, Federal Home Loan Mortgage Corporation or Federal Housing Administration, (3) certificates which evidence ownership of the right to the payment of the principal of and interest on obligations described in clauses (1) and (2), provided that such obligations are held in the custody of a bank or trust company in a special account separate from the general assets of such custodian, and (4) obligations the interest on which is excluded from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, and the timely payment of the principal of and interest on which is fully provided for by the deposit in trust or escrow of cash or obligations described in clauses (1), (2) or (3).

“*Event of Default*” means any of the events specified in the Master Indenture.

“*Excluded Property*” means any assets of “employee pension benefit plans” as defined in the Employee Retirement Income Security Act of 1974, as amended, maintained by or for the benefit of the Obligated Group, any moneys and securities held as an entrance fee or security deposit, or in a resident trust fund, for any resident of any Facility of a Member, any real estate parcels the Corporation may hold temporarily as a convenience to its Affiliates, and the real estate described in Exhibit C to the Master Indenture, as amended as provided in the Master Indenture from time to time, and all improvements, fixtures, tangible personal property and equipment located thereon and used in connection therewith. Except where explicitly set forth in the Master Indenture, neither Principal Property nor Property include Excluded Property.

“*Extendable Indebtedness*” means indebtedness which is repayable or subject to purchase at the option of the holder thereof prior to its stated maturity, but only to the extent of money available for the repayment or purchase therefore and not more frequently than once every year.

“*Facilities*” means the facilities of the Corporation financed with the Series 1998 COPs and the Bonds.

“*Financing*” means a borrowing pursuant to any Obligation authorized by the Master Indenture.

“*First Supplemental Master Indenture*” means the First Supplemental Master Trust Indenture dated as of October 1, 2011, pursuant to which Obligation No. 1, Obligation No. 2 and Obligation No. 3 will be issued.

“*Fiscal Year*” means, (i) for purposes of the Master Indenture, that period adopted by the Obligated Group Representative as its annual accounting period and (ii) for purposes of the Bond Indenture, that period adopted by the Corporation as its annual accounting period. Initially, the Fiscal Year is the period from April 1 of a year to March 31 of the next year.

“*Fitch*” means Fitch Ratings Inc., a corporation organized and existing under the laws of the State 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, “Fitch” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative.

“*Forward Sale Agreement*” means that certain Reserve Fund Forward Sale Agreement dated as of December 9, 2002, by and among the Corporation, U.S. Bank National Association, and JPMorgan Chase & Co, as amended.

“*Governing Body*” means, when used with respect to any Member, its board of directors, board of trustees, or other board or group of individuals in which all of the powers of such Member are vested except for those powers reserved to the corporate membership thereof by the articles of incorporation or bylaws of such Member.

“*Government Issuer*” means any municipal corporation, political subdivision, state, territory or possession within the United States, or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, which obligations would constitute Related Bonds under the Master Indenture.

“*Government Obligations*” means securities which consist of (a) United States Government Obligations, or (b) evidences of a direct ownership in future interest or principal payments on United States Government Obligations, which obligations are held in a custody account by a custodian pursuant to the terms of a custody agreement.

“*Gross Revenue Fund*” means the fund by that name established pursuant to the Master Indenture.

“*Gross Revenues*” means all receipts, revenues, income and other money received by or on behalf of any Member of the Obligated Group from any source whatsoever, including, but not limited to, (a) revenues derived from the operation and possession of each Member’s facilities, including accounts receivable, (b) gifts, bequests, grants, donations and contributions, exclusive of any gifts, bequests, grants, donations or contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Required Payments or for the payment of operating expenses, and (c) revenues derived from (1) condemnation proceeds, (2) inventory and other tangible and intangible property, (3) private and governmental health care reimbursement programs and agreements, (4) insurance proceeds, (5) contract rights and other rights owned by each Member, and (6) realized investment earnings.

“*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.

“*Hazardous Substances*” means (a) any oil, flammable substance, explosives, radioactive materials, hazardous wastes or substances, toxic wastes or substances or any other wastes, materials or pollutants which (i) pose a hazard to the Project or to persons on or about the Project or (ii) cause the Project to be in violation of any Environmental Regulation; (b) asbestos in any form which is or could become friable, urea formaldehyde foam insulation, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls, or radon gas; (c) any chemical, material or substance defined as or included in the definition of “waste,” “hazardous substances,” “hazardous wastes,” “hazardous materials,” “extremely hazardous waste,” “restricted hazardous waste,” or “toxic substances” or words of similar import under any Environmental Regulation including, but not limited to, the Comprehensive Environmental Response, Compensation and Liability Act (“CERCLA”), 42 USC §§ 9601 et seq.; the Resource Conservation and Recovery Act (“RCRA”), 42 USC §§ 6901 et seq.; the Hazardous Materials Transportation Act, 49 USC §§ 1801 et seq.; the Federal Water Pollution Control Act, 33 USC §§ 1251 et seq.; the California Hazardous Waste Control Law (“HWCL”), Cal. Health & Safety Code §§ 25100 et seq.; the Hazardous Substance Account Act (“HSAA”), Cal. Health & Safety Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety Code §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the “Porter-Cologne Act”), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Project or the owners and/or occupants of property adjacent to or surrounding the Project, or any other person coming upon the Project or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

“*Holder*” means 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.

“*Immediate Notice*” means notice by telephone, telex, telecopier or electronic mail to such address as the addressee shall have directed 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, telex, telecopier number or electronic mail address of an addressee, Immediate Notice shall mean written notice by first class mail, postage prepaid.

“*Income Available for Debt Service*” means, with respect to the Obligated Group, as to any period of time, the excess of revenues over expenses (or, in the case of for-profit Members, net income after taxes) of the Obligated Group for such period, to which shall be added depreciation, amortization and interest, all as determined in accordance with generally accepted accounting principles, provided that no such determination shall include any gain or loss resulting from (i) the extinguishment of Indebtedness, (ii) any disposition of capital assets not made in the ordinary course of business or any revenue of an Affiliate which is not a Member, (iii) any one-time charge in connection with a development project that has been abandoned by the Obligated Group, (iv) any gain or loss resulting from changes in the valuation of Indebtedness, investment securities or any Interest Rate Agreement, and any non-cash termination value of any Interest Rate Agreement, (v) the application of changes in accounting principles, (vi) any other extraordinary or non-recurring losses or gains, (vii) Initial Entrance Fees, or (viii) any other non-cash revenue or expense items. For purposes of this definition, revenues shall include (1) resident service revenues, (2) other operating revenues, (3) non-operating revenues or contributions (other than restricted

contributions, income derived from the sale or other disposition of assets not in the ordinary course of business or any gain from the extinguishment of debt or other extraordinary item or earnings which constitute funded interest or earnings on amounts which are irrevocably deposited in escrow to pay the principal of or interest on Indebtedness), and (4) entrance fees received minus (a) entrance fees amortized during such Fiscal Year and (b) entrance fees refunded to residents.

“Indebtedness” means, for any Person, (a) all Guaranties by such Person, (b) all liabilities (exclusive of reserves such as those established for deferred taxes or litigation) recorded or required to be recorded as such on the audited financial statements of such Person in accordance with generally accepted accounting principles, and (c) all obligations for the payment of money incurred or assumed by such Person (i) due and payable in all events or (ii) if incurred or assumed primarily to assure the repayment of money borrowed or credit extended, due and payable upon the occurrence of a condition precedent or upon the performance of work, possession of Property as lessee, rendering of services by others or otherwise; provided that Indebtedness shall not include Indebtedness of one Member to another Member, any Guaranty by any Member of Indebtedness of any other Member, the joint and several liability of any Member on Indebtedness issued by another Member, Interest Rate Agreements or any obligation to repay moneys deposited by patients or others with a Member as security for or as prepayment of the cost of patient care or any rights of residents of life care, elderly housing or similar facilities to entrance fees (whether amortized into income or not), endowment or similar funds deposited by or on behalf of such residents including but not limited to any deferred obligations for the refund or repayment of entrance fees, any rent, development, marketing, operating or other fees that have been deferred from the year in which they were originally due as a result of deferral or subordination.

“Independent Consultant” means a firm (but not an individual) which (1) is in fact independent of and has no relationship with the Corporation or a Member other than as provided within the scope of a consulting engagement including, but not limited to, subparagraphs (2) and (3) below, (2) does not have any direct financial interest or any material indirect financial interest in any Member or any Affiliate and (3) is not connected with any Member or any Affiliate as an officer, employee, promoter, underwriter, trustee, partner, director or person performing similar functions, and designated by the Obligated Group Representative, qualified to pass upon questions relating to the financial affairs of facilities of the type or types operated by the Obligated Group and having a favorable reputation for skill and experience in the financial affairs of such facilities.

“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 Authority, the Corporation or the Bond Trustee.

“Industry Restrictions” means federal, state or other applicable governmental laws or regulations or general industry standards or general industry conditions placing restrictions and limitations on the rates, fees and charges to be fixed, charged and collected by the Members.

“Initial Entrance Fees” means fees received upon the initial occupancy of any newly-constructed independent living units that are part of a project (including any such fees collected for the purpose of obtaining a parking space) not previously occupied, other than security deposits, monthly rentals or monthly service charges, paid to a Member by residents of living units for the purpose of obtaining the right to reside in those living units or to obtain a parking space including any refundable resident deposits described in any lease, residency agreement or similar agreement with respect to those living units or parking spaces, but shall not include any such amounts held in escrow or otherwise set aside pursuant to the requirements of any such agreement or a reservation agreement prior to the occupancy of the living unit or parking space covered by such lease, residency agreement or similar agreement (which amounts shall be included if and when occupancy occurs).

“*Insurance Consultant*” means a person or firm (which may be an insurance broker or agent of a Member) who is not, and no member, director, officer or employee of which is, an officer or employee of any Member or any Affiliate, designated by the Obligated Group Representative and qualified to survey risks and to recommend insurance coverage for hospitals, health-related facilities and services and organizations engaged in such operations.

“*Interest Fund*” means, for a given series of DSRF Bonds, an interest fund created under such DSRF Bonds’ Related Bond Indenture for the purpose of paying interest on the DSRF Bonds.

“*Interest Payment Date*” means each January 1 and July 1, commencing January 1, 2012. In each case, if any date so specified is not a Business Day, the Interest Payment Date shall be the immediately following Business Day.

“*Interest Rate Agreement*” means an interest rate exchange, hedge or similar agreement, expressly identified in an Officer’s Certificate of the Corporation delivered to the Master Trustee as being entered into in order to hedge the interest payable on all or a portion of any Indebtedness, which agreement may include, without limitation, an interest rate swap, a forward or futures contract or an option (e.g. a call, put, cap, floor or collar) and which agreement does not constitute an obligation to repay money borrowed, credit extended or the equivalent thereof. An Interest Rate Agreement shall not constitute Indebtedness under the Master Indenture.

“*Interim Indebtedness*” means Long-Term Indebtedness with a final maturity 60 months or less from the date of incurrence, certified in an Officer’s Certificate filed with the Master Trustee to have been incurred in anticipation of refinancing with the proceeds of other Long-Term Indebtedness other than Interim Indebtedness prior to the final maturity thereof.

“*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.

“*Loan Agreement*” means the Loan Agreement dated as of October 1, 2011, between the Authority and the Corporation relating to the Bonds, as it may from time to time be amended and supplemented.

“*Long-Term Debt Service Coverage Ratio*” means, for any period of time, the ratio determined by dividing Income Available for Debt Service by Maximum Annual Debt Service.

“*Long-Term Indebtedness*” means Indebtedness having an original maturity greater than one year or renewable at the option of a Member for a period greater than one 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.

“*Master Indenture*” means the Master Trust Indenture dated as of October 1, 2011, by and among the Corporation, as the initial Member of the Obligated Group and the Master Trustee, as supplemented and amended by the First Supplemental Master Indenture, and as it may from time to time be further amended or as supplemented in accordance with the terms thereof.

“*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, subject to the limitations contained in the Master Indenture, any other corporation or association which may be co-

trustee with the Master Trustee and any successor or successors to said trustee or co-trustee in the trusts created under the Master Indenture.

“*Maximum Annual Debt Service*” means the greatest amount of Annual Debt Service becoming due and payable in any Fiscal Year including the Fiscal Year in which the calculation is made or any subsequent Fiscal Year; provided, however, that for the purposes of computing Maximum Annual Debt Service:

(a) There shall be included in the Long-Term Indebtedness of any Member, 20% of the annual principal and interest requirements with respect to the debt of any Person subject to a Guaranty by such Member. If any Member has been required by reason of its Guaranty to make a payment in respect of another Person’s Indebtedness within the immediately preceding two Fiscal Years, all of the annual principal and interest requirements with respect to the debt subject to the Guaranty shall be included in Long-Term Indebtedness.

(b) For any Long-Term Indebtedness for which a binding commitment, letter of credit or other credit arrangement providing for the extension of such Indebtedness beyond its original maturity date exists, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, be made on the assumption that such Long-Term Indebtedness will be amortized in accordance with such credit arrangement.

(c) For any Balloon Indebtedness and Interim Indebtedness, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, assume that such Long-Term Indebtedness is to be amortized over a period specified by the Obligated Group Representative up to 30 years in duration, beginning on the date of maturity of such Indebtedness or such earlier date as may be specified by the Obligated Group Representative, assuming level debt service and a rate of interest equal to the Projected Rate; provided, however that if the Projected Rate cannot be determined the rate shall be assumed to be a fixed rate of interest equal to the most recently published Bond Buyer 30-year Revenue Bond Index or a similar index.

(d) For any Extendable Indebtedness, the computation of Maximum Annual Debt Service shall, at the option of the Obligated Group Representative, assume that such Extendable Indebtedness is to be amortized over the period until its stated maturity, assuming level debt service and a fixed rate of interest equal to the current rate of interest on such Extendable Indebtedness.

(e) If interest on Long-Term Indebtedness is payable pursuant to a variable interest rate formula (including Balloon Indebtedness and Interim Indebtedness, if the Obligated Group Representative does not choose to use paragraph (c) above, and including Extendable Indebtedness, if the Obligated Group Representative does not choose to use paragraph (d) above), the interest rate on such Long-Term Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be a fixed rate of interest equal to the most recently published average of the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index over the preceding ten years (or a similar index if unavailable), plus the cost of any credit enhancement fees, and remarketing fees, if any.

(f) Anything contained in the Master Indenture to the contrary notwithstanding, any portion of any Indebtedness of any Member for which an Interest Rate Agreement has been obtained by such Member shall be deemed to bear interest for the period of time that such Interest Rate Agreement is in effect at a net rate which takes into account the interest payments made by

such Member on such Indebtedness and the payments made or received by such Member on such Interest Rate Agreement; provided that the long-term credit rating of the provider of such Interest Rate Agreement (or any guarantor thereof) is in one of the three highest rating categories of any Rating Agency (without regard to any refinements of gradation of rating category by numerical modifier or otherwise) or is at least as high as that of the Obligated Group.

“*Member*” or “*Member of the Obligated Group*” means any Person who is designated as a Member of the Obligated Group pursuant to the terms and conditions of the Master Indenture.

“*Moody’s*” means Moody’s Investors Service, 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, “*Moody’s*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative.

“*Obligated Group*” means all Members.

“*Obligated Group Representative*” means the Corporation or such other Member 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 may be in any form set forth in a Related Supplement, including, but not limited to, bonds, obligations, debentures, reimbursement agreements, loan agreements or leases. Reference to a “*Series of Obligations*” or to “*Obligations of a Series*” means Obligations or series of Obligations issued pursuant to a single Related Supplement.

“*Obligation No. 1*” means Direct Note Obligation No. 1 dated October 27, 2011, issued to the Authority under the First Supplemental Master Indenture to secure the Series 2000 COPs.

“*Obligation No. 2*” means Direct Note Obligation No. 2 dated October 27, 2011, issued to Wells Fargo Bank, National Association under the First Supplemental Master Indenture.

“*Obligation No. 3*” means Direct Note Obligation No. 3 dated October 27, 2011, issued to the Authority under the First Supplemental Master Indenture to secure the Series 2011 Bonds.

“*Officer’s Certificate*” means a certificate signed by the Authorized Representative of the Obligated Group Representative.

“*Official Statement*” means the Official Statement dated October 6, 2011, relating to the Bonds.

“*Opinion of Bond Counsel*” means an opinion of nationally recognized municipal bond counsel, which opinion may be based upon a ruling or rulings of the Internal Revenue Service, and which counsel and opinion, including the scope, form, substance and other aspects thereof, are acceptable to the Authority.

“*Opinion of Independent Counsel*” means an opinion in writing signed by an attorney or firm of attorneys, duly admitted to practice law before the highest court of any state and, without limitation, may include independent legal counsel for the Obligated Group Representative.

“*Outstanding*”, when used with reference to Indebtedness, means, as of any date of determination, all Indebtedness 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, and (d) 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 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 shall be deemed Outstanding. Interest Rate Agreements shall not be deemed Outstanding as they are not deemed Indebtedness.

“*Parity Debt Service Reserve Fund*” means the fund established and maintained for the benefit and security of all DSRF Bonds under the Master Indenture and summarized in the first paragraph under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – PARITY DEBT SERVICE RESERVE FUND” below.

“*Parity Debt Service Reserve Requirement*” means, except where otherwise explicitly specified in the Master Indenture, the lesser of (i) an amount equal to the overall Maximum Annual Debt Service of Indebtedness represented by DSRF Bonds, (ii) an amount equal to 10% of the proceeds of all DSRF Bonds in aggregate, or (iii) an amount equal to the sum, for all series of DSRF Bonds, of 125% of the average annual debt service of DSRF Bonds calculated on the date of issuance of such DSRF Bonds.

“*Permitted Encumbrances*” shall have the meaning and include:

- (a) Liens securing any Member’s Obligations;
- (b) Liens arising by reason of good faith deposits by any Member in the ordinary course of business (for other than borrowed money), deposits by any Member to secure public or statutory obligations or deposits 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;
- (c) any Lien arising by reason of deposits with, or the giving of any form of security to, any governmental regulation as a condition to the transaction of any business or the exercise of any privilege or license, or to enable any Member 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 similar social security plans, or to share in the privileges or benefits required for companies participating in such arrangements;
- (d) any judgment Lien against any Member so long as such judgment is being contested in good faith and execution thereon is stayed;
- (e) 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, to:
 - (1) terminate such right , power, franchise, grant, license, or permit, provided, that the exercise of such right would not materially impair the use of such Property or materially and adversely affect the value thereof, or

(2) purchase, condemn appropriate or recapture, or designate a purchaser of, the Property or any portion thereof;

(f) any Liens on any of the 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 not delinquent or which, or the amount or validity of which, are being contested and execution thereon is stayed or, with respect to Liens of mechanics, materialmen, laborers, suppliers or vendors, have been due for less than 90 days;

(g) easements, rights-of-way, servitudes, restrictions, oil, gas, or other mineral reservations and other minor defects, encumbrances, and irregularities in the title to any of the Property which do not materially impair the use of such Property or materially and adversely affect the value thereof,

(h) rights reserved to or vested in any municipality or public authority to control or regulate any of the Property or to use such Property in any manner, which rights do not materially impair the use of such Property or materially and adversely affect the value thereof, to the extent that it affects title to any Property;

(i) landlord's Liens;

(j) Liens on moneys deposited with any Member as security for or as prepayment for the cost of patient care;

(k) Liens on Property received by any Member through gifts, grants or bequests, such Liens being due to restrictions on such gifts, grants or bequests or the income thereon;

(l) Liens on Property due to rights of third-party payors for recoupment of amounts paid to any Member;

(m) purchase of money security interest and security interest existing on any of the Property prior to the time of its acquisition through purchase, merger, consolidation or otherwise, or placed upon Property to secure a portion of the purchase price thereof, or lessee's interest in leases required to be capitalized in accordance with GAAP;

(n) Any Lien described in Exhibit A to the Master Indenture which is existing on the date of execution of the Master Indenture provided that no such Lien (or the amount of Indebtedness secured thereby) may be increased, extended, renewed or modified to apply to any Property of any Member not subject to such Lien on such date, unless such Lien as so extended, renewed or modified otherwise qualifies as a Permitted Encumbrance under the Master Indenture;

(o) Liens on funds or securities posted in a collateral account held by a counterparty to an Interest Rate Agreement, or by a third party custodian therefore;

(p) Liens on Excluded Property; and

(q) The pledge of revenues under that certain Interest Rate Agreement dated as of April 1, 2002 with Wells Fargo Bank, National Association, successor to Wachovia Bank, National Association, as counterparty, Reference Number 59460, 59677.

“*Person*” means any natural person, firm, joint venture, association, partnership, business trust, corporation, limited liability company, public body, agency or political subdivision thereof or any other similar entity.

“*Primary Obligor*” means that Member or those Members primarily obligated to make Required Payments with respect to any particular Obligation as set forth in a Related Supplement.

“*Principal Property*” means that portion of the Property, Plant and Equipment, wherever situated and whether now owned or hereafter acquired that: (a) is material and integral to or a material and integral part of the primary operations of a Member, and (b) is so designated pursuant to the Master Indenture. At the time of original execution and delivery of the Master Indenture, Principal Property includes the Property shown on Exhibit B to the Master Indenture.

“*Pro Rata Portion*” means an amount equal to a pro rata portion of the Parity Debt Service Reserve Requirement based on the respective amounts of Annual Debt Service of the Long-Term Indebtedness represented by DSRF Bonds (excluding Related Bonds that are not DSRF Bonds) for the then-current Fiscal Year.

“*Pro Rata Portion Available*” means, for a given series of DSRF Bonds, such DSRF Bonds’ Pro Rata Portion, less any amounts previously drawn by the Related Bond Trustee for such DSRF Bonds in accordance with the provisions described in subparagraph (c)(1)(i) under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – PARITY DEBT SERVICE RESERVE FUND” below and not restored to the current Pro Rata Portion in accordance with the provisions described in subparagraph (c)(2) under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – PARITY DEBT SERVICE RESERVE FUND” below.

“*Project*” shall have the meaning as described in Exhibit B to the Bond Indenture.

“*Project Certificate*” means the Certificate Regarding the Project and the Expenditure of Funds dated the Closing Date delivered by the Corporation.

“*Projected Rate*” means the projected yield at par of an obligation as set forth in the report of an Independent Consultant. Such report shall state that in determining the Projected Rate such Independent Consultant reviewed the yield evaluations at par of no fewer than three obligations selected by such Independent Consultant, the interest on which is entitled to the exemption from federal income tax afforded by Section 103(a) of the Code or any successor thereto (or, if it is not expected that it will be reasonably possible to issue such tax-exempt obligations, then obligations the interest on which is subject to federal income taxation) which obligations such Independent Consultant states in its report are reasonable comparators for utilizing in developing such Projected Rate and which obligations: (i) were outstanding on a date selected by the Independent Consultant which date so selected occurred during the 90-day period preceding the date of the calculation utilizing the Projected Rate in question, (ii) to the extent practicable, are obligations of Persons engaged in operations similar to those of the Obligated Group and having a credit rating similar to that of the Obligated Group, (iii) are not entitled to the benefits of any credit enhancement, including without limitation any letter or line of credit or insurance policy, and (iv) to the extent practicable, have a remaining term and amortization schedule substantially the same as the obligation with respect to which such Projected Rate is being developed.

“*Property*” means any and all rights, titles and interests in and to any and all assets of the Obligated Group, whether real or personal, tangible or intangible and wherever situated, as shown on the most recent audited financial statements for the Obligated Group for the most recent Fiscal Year for which they are available. Property shall not include the land, leasehold interests, buildings, fixtures or equipment constituting Excluded Property.

“*Property, Plant and Equipment*” means any Property of the Obligated Group which constitutes property, plant and equipment in accordance with generally accepted accounting principles.

“*Purchase Contract*” means the Bond Purchase Contract dated October 6, 2011, among B.C. Ziegler and Company, the Corporation and the Authority, providing for the sale of the Bonds.

“*Qualified Investments*” under the Bond Indenture means, if and to the extent the same are at the time legal for investment of funds held under the Bond Indenture, dollar denominated investments in any of the following:

- (a) Government Obligations;
- (b) debt obligations which are (i) issued by any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision, and (ii) at the time of purchase, rated in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency;
- (c) any bond, debenture, note, participation certificate or other similar obligation issued by a government sponsored agency (such as the Federal National Mortgage Association, the Federal Home Loan Bank System, the Federal Home Loan Mortgage Corporation or the Federal Farm Credit Bank) which is either (i) rated in the highest rating category by any Rating Agency, or (ii) backed by the full faith and credit of the United States of America;
- (d) U.S. denominated deposit account, certificates of deposit and banker’s acceptances of any bank, trust company, or savings and loan association, including the Bond Trustee or its affiliates, which have a rating on their short-term certificates of deposit on the date of purchase in one of the two highest short-term rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency, and which mature not more than 360 days after the date of purchase;
- (e) commercial paper which is rated at the time of purchase in one of the two highest short-term rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency, and which matures not more than 270 days after the date of purchase;
- (f) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by a corporation which are, at the time of purchase, rated by any Rating Agency in any of the three highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise);
- (g) investment agreements with banks that at the time such agreement is executed are rated in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency or investment agreements with non-bank financial institutions, provided that (1) all of the unsecured, direct long-term debt of either the non-bank financial institution or the related guarantor of such

non-bank financial institution is rated by any Rating Agency at the time such agreement is executed in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) for obligations of that nature; or (2) if such non-bank financial institution and any related guarantor have no outstanding long-term debt that is rated, all of the short-term debt of either the non-bank financial institution or the related guarantor of such non-bank financial institution is rated by any Rating Agency in one of the two highest rating categories (without regard to any refinement or gradation of the rating category by numerical modifier or otherwise) assigned to short term indebtedness by any Rating Agency. If such non-bank financial institution and any guarantor do not have any short-term or long-term debt, but do have a rating in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise), then investment agreements with such non-bank financial institutions will be permitted;

(h) repurchase agreements with respect to and secured by Government Obligations or by obligations described in clauses (b) and (c) above, which agreements may be entered into with a bank (including without limitation the Bond Trustee), a trust company, financial services firm or a broker dealer which is a member of the Securities Investors Protection Corporation, provided that (i) the Bond Trustee or a custodial agent of the Bond Trustee has possession of the collateral and that the collateral is, to the knowledge of the Bond Trustee, free and clear of third-party claims, (ii) a master repurchase agreement or specific written repurchase agreement governs the transaction, (iii) the collateral securities are valued no less frequently than monthly, (iv) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%, and (v) such obligations must be held (as applicable) in the custody of the Bond Trustee or Bond Trustee's agent;

(i) investments in a money market fund, which may be funds of the Bond Trustee or an affiliate thereof, rated (at the time of purchase) in the highest rating category for this type of investment by any Rating Agency; and

(j) shares in any investment company, money market mutual fund, fixed income mutual fund, Exchange Traded Fund or other collective investment fund registered under the federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and the majority of whose investments consist solely of Qualified Investments as defined in subparagraphs (a) through (i) above, including money market mutual funds from which the Bond Trustee or its affiliates derive a fee for investment advisory or other services to the fund.

The Bond Trustee shall be entitled to assume that any investment which at the time of purchase is a Qualified Investment remains a Qualified Investment thereafter, absent receipt of written notice or information to the contrary.

For the purposes of this definition, obligations issued or held in the name of the Bond Trustee (or in the name of the Authority and payable to the Bond Trustee) in book-entry form on the books of the Department of Treasury of the United States shall be deemed to be deposited with the Bond Trustee, as applicable.

“*Qualified Investments*” under the Master Indenture means, if and to the extent the same are at the time legal for investment of funds held under the Master Indenture, dollar denominated investments in any of the following:

(a) Government Obligations;

(b) debt obligations which are (i) issued by any state or political subdivision thereof or any agency or instrumentality of such state or political subdivision, and (ii) at the time of purchase, rated in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency;

(c) any bond, debenture, note, participation certificate or other similar obligation issued by a government sponsored agency (such as the Federal National Mortgage Association, the Federal Home Loan Bank System, the Federal Home Loan Mortgage Corporation or the Federal Farm Credit Bank) which is either (i) rated in the highest rating category by any Rating Agency, or (ii) backed by the full faith and credit of the United States of America;

(d) U.S. denominated deposit account, certificates of deposit and banker's acceptances of any bank, trust company, or savings and loan association, including the Master Trustee or its affiliates, which have a rating on their short-term certificates of deposit on the date of purchase in one of the two highest short-term rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency, and which mature not more than 360 days after the date of purchase;

(e) commercial paper which is rated at the time of purchase in one of the two highest short-term rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency, and which matures not more than 270 days after the date of purchase;

(f) bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by a corporation which are, at the time of purchase, rated by any Rating Agency in any of the three highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise);

(g) investment agreements with banks that at the time such agreement is executed are rated in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) assigned by any Rating Agency or investment agreements with non-bank financial institutions, provided that (1) all of the unsecured, direct long-term debt of either the non-bank financial institution or the related guarantor of such non-bank financial institution is rated by any Rating Agency at the time such agreement is executed in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise) for obligations of that nature; or (2) if such non-bank financial institution and any related guarantor have no outstanding long-term debt that is rated, all of the short-term debt of either the non-bank financial institution or the related guarantor of such non-bank financial institution is rated by any Rating Agency in one of the two highest rating categories (without regard to any refinement or gradation of the rating category by numerical modifier or otherwise) assigned to short term indebtedness by any Rating Agency. If such non-bank financial institution and any guarantor do not have any short-term or long-term debt, but do have a rating in one of the two highest rating categories (without regard to any refinement or gradation of rating category by numerical modifier or otherwise), then investment agreements with such non-bank financial institutions will be permitted;

(h) repurchase agreements with respect to and secured by Government Obligations or by obligations described in clauses (b) and (c) above, which agreements may be entered into with a bank (including without limitation a Related Bond Trustee or the Master Trustee), a trust company, financial services firm or a broker dealer which is a member of the Securities Investors Protection Corporation, provided that (i) the Master Trustee or a custodial agent of the Master

Trustee has possession of the collateral and that the collateral is, to the knowledge of the Master Trustee, free and clear of third-party claims, (ii) a master repurchase agreement or specific written repurchase agreement governs the transaction, (iii) the collateral securities are valued no less frequently than monthly, (iv) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 103%, and (v) such obligations must be held (as applicable) in the custody of the Master Trustee or Master Trustee's agent;

(i) investments in a money market fund, which may be funds of a Related Bond Trustee or the Master Trustee or an affiliate thereof, rated (at the time of purchase) in the highest rating category for this type of investment by any Rating Agency;

(j) shares in any investment company, money market mutual fund, fixed income mutual fund, Exchange Traded Fund or other collective investment fund registered under the federal Investment Company Act of 1940, whose shares are registered under the Securities Act of 1933, and the majority of whose investments consist solely of Qualified Investments as defined in paragraphs (a) through (i) above, including money market mutual funds from which the Master Trustee, Related Bond Trustee or its affiliates derive a fee for investment advisory or other services to the fund; and

(k) for purposes of the Parity Debt Service Reserve Fund, any investments deposited into such funds in accordance with the provisions of the Master Indenture described in subparagraph (c) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – PARITY DEBT SERVICE RESERVE FUND" below, including without limitation the Forward Sale Agreement.

The Master Trustee shall be entitled to assume that any investment which at the time of purchase is a Qualified Investment remains a Qualified Investment thereafter, absent receipt of written notice or information to the contrary.

For the purposes of this definition, obligations issued or held in the name of the Master Trustee (or in the name of the Authority and payable to the Master Trustee) in book-entry form on the books of the Department of Treasury of the United States shall be deemed to be deposited with the Master Trustee, as applicable.

"*Rating Agency*" means Moody's, Standard & Poor's or Fitch, and their respective successors and assigns.

"*Rebate Fund*" means the Rebate Fund created by the Tax Exemption Agreement to comply with Section 148(f) of the Code.

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

"*Related Bond Issuer*" means the Government Issuer of any issue of Related Bonds, including the California Statewide Communities Development Authority.

"*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 Bonds*” means any revenue bonds, certificates of participation or other obligations issued or 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 the Corporation or a Member in consideration of the execution, authentication and delivery of an Obligation or Obligations to or for the order of such Government Issuer. As of the initial execution and delivery of the Master Indenture, Related Bonds include the Series 2000 COPs and the Series 2011 Bonds.

“*Related Loan Document*” means any document or documents (including without limitation any loan agreement, lease, sublease or installment sales contract) pursuant to which any proceeds of any Related Bonds are advanced to any Member (or any Property financed or refinanced with such proceeds is loaned, leased, subleased or sold to a Member).

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

“*Related Tax Exemption Agreement*” means any tax exemption agreement or other comparable instrument relating to a series of Related Bonds.

“*Required Information Recipients*” means the Master Trustee, B.C. Ziegler and Company, as the initial purchaser of the Related Bonds issued in 2011, each Related Bond Trustee, EMMA or any other nationally recognized municipal securities information repositories identified by the Securities and Exchange Commission, the Authority, and all owners of \$500,000 or more in aggregate principal amount of Bonds who request such reports in writing (which written request shall include a certification as to such ownership).

“*Required Payment*” means any payment whether at maturity, by acceleration, upon proceeding for redemption or otherwise, required to be made by any Member under the Master Indenture, any Related Supplement, any Obligation or otherwise in connection with a Financing, including, but not limited to, the payment of principal, interest and premium and lease payments.

“*Responsible Officer*” means, with respect to the Master Trustee, the chairman and vice chairman of the board of directors, the chairman of the executive committee of the board of directors, the vice chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, any assistant vice president, the cashier, any assistant cashier, the secretary, any assistant secretary, the treasurer, any assistant treasurer, any trust officer, any assistant trust officer or any other officer of the Master Trustee customarily performing functions similar to those performed by the persons above-designated or to whom any corporate trust matter is referred because of such person’s knowledge of and familiarity with the particular subject. With respect to the Corporation, “Responsible Officer” means the president, chief executive officer, chief financial officer or any executive vice president of the Corporation.

“*Rule 15c2-12*” means Rule 15c2-12 of the Securities and Exchange Commission promulgated under the Securities Exchange Act of 1934, as amended.

“*Series 1998 COPs*” means the ABAG Finance Authority for Nonprofit Corporations Refunding Revenue Certificates of Participation (Episcopal Homes Foundation), Series 1998, evidencing direct, undivided fractional interests of the owners thereof in purchase payments to be made by ABAG from installment payments received from the Corporation issued pursuant to the Series 1998 Trust Agreement.

“*Series 1998 Trust Agreement*” means the Trust Agreement dated as of June 1, 1998, among the Authority, the Corporation and the Series 1998 Trustee.

“*Series 1998 Trustee*” means U.S. Bank Trust National Association, as trustee under the Series 1998 Trust Agreement.

“*Series 2000 COPs*” means the \$33,250,000 ABAG Finance Authority for Nonprofit Corporations Variable Rate Certificates of Participation (Episcopal Homes Foundation), Series 2000.

“*Series 2000 Trust Agreement*” means the Trust Agreement dated as of February 1, 2000, by and among the Authority, the Corporation and the Series 2000 Trustee relating to the Series 2000 COPs, as amended and supplemented from time to time pursuant to its terms.

“*Series 2000 Trustee*” means Wells Fargo Bank, National Association, as trustee under the Series 2000 Trust Agreement, or any successor trustee under the Series 2000 Trust Agreement; provided, however, that while a letter of credit is in effect with respect to the Series 2000 COPs, “*Series 2000 Trustee*” shall mean the bank that issued such letter of credit.

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

“*Special Record Date*” means the date fixed by the Bond Trustee pursuant to the Bond Indenture for the payment of Defaulted Interest.

“*Standard & Poor’s*” or “*S&P*” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*Standard & Poor’s*” or “*S&P*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Obligated Group Representative.

“*State*” means the State of California.

“*Subordinated Indebtedness*” means Indebtedness incurred by a Member which by its terms is specifically subordinated with respect to any security therefor and with respect to right of payment to all Outstanding Obligations and to all other obligations of a Member not containing such subordination provisions.

“*Tax-Exempt Organization*” means a Person organized under the laws of the United States of America or any state thereof which is an organization described in Section 501(c)(3) of the Code, which is exempt from federal income taxes under Section 501(a) of the Code and which is not a “private foundation” within the meaning of Section 509(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect.

“*Tax Exemption Agreement*” means the Tax Exemption Agreement relating to the Bonds dated the Closing Date among the Corporation, the Authority and the Bond Trustee, as it may from time to time be amended or supplemented.

“*Total Operating Revenues*” means the sum of total unrestricted operating revenues as shown on the consolidated financial statements of the Obligated Group, determined in accordance with generally accepted accounting principles.

“*Trustor*,” as used in the Deeds of Trust, means the Corporation.

“*Unassigned Rights*” means the right of the Authority to receive payment of its fees and expenses, the Authority’s right to indemnification in certain circumstances, the Authority’s right to receive notices under the Bond Indenture, the Loan Agreement, the Purchase Contract, the Tax Exemption Agreement or any other Bond document, and the Authority’s right to execute and deliver supplements and amendments to the Loan Agreement.

“*United States Government Obligations*” means noncallable direct obligations of, or obligations the timely payment of the principal of and interest on which is fully guaranteed by, the United States of America including obligations issued or held in book entry form on the books of the Department of the Treasury of the United States of America.

“*Valuation Date*” means the last Business Day of each Fiscal Year.

“*Written Request*” with reference to the Authority means a request in writing (which may be by electronic means acceptable to the Bond Trustee) signed by the Chairman, the Vice Chairman, Secretary or a member of the Authority, and with reference to the Corporation means a request in writing signed by the President, a Vice President, Secretary or Assistant Secretary 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 its provisions. All references to the Interest Fund, Bond Sinking Fund, Optional Redemption Fund, Debt Service Reserve Fund and Authority Fee Fund under this heading shall mean such funds created under and pursuant to the Bond Indenture.

FUNDS

(a) **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 – ESC – Series 2011” (the “Interest Fund”).

On or before November 20, 2011 and on or before December 20, 2011, the Bond Trustee shall deposit in the Interest Fund moneys received from the Corporation in an amount which is equal to not less than one-half (1/2) of the interest to become due on the next succeeding Interest Payment Date, and on or before January 20, 2012 and on the 20th day of each month thereafter, the Bond Trustee shall deposit in the Interest Fund moneys received from the Corporation in an amount which is equal to not less than one-sixth (1/6) of the interest to become due on the next succeeding Interest Payment Date. No deposit pursuant to this paragraph need be made if and to the extent that there is a sufficient amount already on deposit and available for such purpose in the Interest Fund. If the 20th day of any such month is not a Business Day, the deposit required under the Bond Indenture to be made shall be made on the next succeeding Business Day.

Moneys on deposit in the Interest Fund, other than income earned thereon which is to be transferred to other funds created under the Bond Indenture, must be used to pay interest on the Bonds.

In connection with any partial redemption or defeasance prior to maturity of the Bonds, the Bond Trustee may, at the request of the Corporation, use any amounts on deposit in the Interest Fund 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 the principal of and interest on the Bonds to be redeemed or defeased.

(b) Bond Sinking 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 “Bond Sinking Fund – ESC – Series 2011” (the “Bond Sinking Fund”).

On each bond sinking fund payment date, after making the deposits required by the provisions of the Bond Indenture summarized under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – FUNDS – Interest Fund” above, the Bond Trustee shall deposit in the Bond Sinking Fund moneys received from the Corporation in an amount which, together with any moneys already on deposit in the Bond Sinking Fund and available to make such payment, is not less than the principal becoming due on the Bonds on such date.

On or before the 20th day of each month commencing November 20, 2011 and ending June 20, 2012, after making the deposits required by the provisions of the Bond Indenture summarized under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – FUNDS – Interest Fund” above, the Bond Trustee shall deposit in the Bond Sinking Fund from moneys received from the Corporation an amount which is not less than one-eighth (1/8) of the principal of the Bonds on July 1, 2012 by maturity or by mandatory Bond Sinking Fund redemption. On or before the 20th day of each month commencing July 20, 2012, after making the deposits required by the provisions of the Bond Indenture summarized under the heading “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – FUNDS – Interest Fund” above, the Bond Trustee shall deposit in the Bond Sinking Fund from moneys received from the Corporation an amount which is not less than one-twelfth (1/12) of the principal of the Bonds on the next succeeding July 1 by maturity or by mandatory Bond Sinking Fund redemption. No deposit pursuant to this paragraph need be made if and to the extent that there is a sufficient amount already on deposit and available for such purpose in the Bond Sinking Fund. If the 20th day of any month is not a Business Day, the deposit required to be made shall be made on the next succeeding Business Day.

In lieu of such mandatory Bond Sinking Fund redemption, the Bond Trustee may, at the request of the Corporation, purchase an equal principal amount of Bonds in the open market at prices not exceeding the principal amount of the Bonds being purchased plus accrued interest. 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 assigned to such mandatory Bond Sinking Fund redemption date or to the period during which such Bond Sinking Fund redemption date occurs 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 request of the Corporation, use any amounts on deposit in the Bond Sinking Fund 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 the principal of and interest on the Bonds to be redeemed or defeased.

(c) Master Debt Service Reserve Transfer 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 “Master Debt Service Reserve Transfer Fund – ESC – Series 2011” (the “Master Debt Service Reserve Transfer Fund”). The Bond Trustee shall deposit in the Master Debt Service Reserve Transfer Fund any amounts that the Master Trustee provides the Bond Trustee pursuant to the provisions of the Master Indenture summarized under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – PARITY DEBT SERVICE RESERVE FUND” below. Moneys on deposit in the Master Debt Service Reserve Transfer Fund shall only be used as provided in the Bond Indenture.

Upon identification of a deficiency in the Interest Fund or the Bond Sinking Fund (in that order), the Bond Trustee shall provide the Master Trustee with a written request certifying (i) the existence of such deficiency and (ii) the amount of such deficiency. The Bond Trustee shall use any moneys received from the Master Trustee pursuant to such request to make up such deficiency. If the amounts received from the Master Trustee pursuant to such request are insufficient to cover the deficiency, the Bond Trustee shall request that the Master Trustee seek approval from other bond trustees for bonds secured by the Parity Debt Service Reserve Fund to use their respective allocations from the Parity Debt Service Reserve Fund to cover the remaining deficiency, all in accordance with the provisions of the Master Indenture described in the second paragraph of subsection (c)(1)(i) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – PARITY DEBT SERVICE RESERVE FUND" below. The Bond Trustee shall use any moneys received from the Master Trustee described in the second paragraph of subsection (c)(1)(i) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – PARITY DEBT SERVICE RESERVE FUND" below to make up such deficiency.

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, provide the Master Trustee with a written request for a remittance from the Parity Debt Service Reserve Fund in an amount necessary to pay the principal of or the principal portion of the redemption price of said Bonds to be redeemed or defeased. The Bond Trustee shall use any moneys received from the Master Trustee pursuant to such request to pay the principal of or the principal portion of the redemption price of said Bonds to be partially redeemed or defeased or fund a debt service reserve fund for refunding bonds, all as applicable and at the option of the Corporation.

Upon the Bond Trustee's receipt of a written request from the Master Trustee for approval to use the Pro Rata Portion Available (as defined in the Master Indenture) to the Bonds for the benefit of certain other bonds that benefit from security of the Parity Debt Service Reserve Fund under the Master Indenture in order to avoid certain events of default, all in accordance with the provisions described in the second paragraph of subsection (c)(1)(i) under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE – PARITY DEBT SERVICE RESERVE FUND" below, the Bond Trustee shall solicit the written approval of the Bondholders. Upon receipt of the written approval of Bondholders representing at least a majority in aggregate principal amount of all Bonds outstanding, the Bond Trustee shall provide the Master Trustee with a written certification that it has obtained such approval.

Any funds deposited in the Master Debt Service Reserve Transfer Fund from time to time and not otherwise accounted for in this subsection (c) shall be transferred to:

- (i) The Bond Sinking Fund to the extent of the amount required to be deposited therein to make the next required principal payment on the Bonds occurring within 13 months of the date of deposit;
 - (ii) The Interest Fund to the extent of the estimated amount required to be deposited therein to make any interest payment on the Bonds occurring within 13 months of the date of deposit; and
 - (iii) The balance, if any, in the Optional Redemption Fund.
- (d) Optional 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 "Optional Redemption Fund – ESC – Series 2011" (the "Optional Redemption Fund"). In the event of (a) prepayment by or on behalf of the Corporation of amounts payable on the Loan Agreement, (b) receipt by the Bond Trustee of condemnation awards or insurance proceeds for purposes of redeeming Bonds or

(c) deposit with the Bond Trustee by the Corporation or the Authority of moneys from any other source for redeeming Bonds, such moneys shall be deposited in the Optional Redemption Fund.

Moneys on deposit in the Optional 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 for the purchase or redemption of Bonds in accordance with the provisions of the Bond Indenture.

Funds transferred to the Bond Trustee pursuant to the provisions of the Bond Indenture shall be deposited in the Optional Redemption Fund and used to optionally redeem Bonds on the earliest date practicable in accordance with the provisions of the Bond Indenture without further request from the Authority or the Corporation.

(e) Authority Fee 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 “Authority Fee Fund – ESC – Series 2011” (the “Authority Fee Fund”), which shall be applied only as described under this subsection (e). The Bond Trustee shall deposit in the Authority Fee Fund the amounts paid to it by the Corporation for the Authority, as required by the Loan Agreement, and shall remit such amounts to the Authority within 10 days of receipt by the Bond Trustee of such amounts, or less frequently as the Authority may direct the Bond Trustee in writing. Any balance of the Authority Fee Fund shall be invested at the written direction of the Authority and, in the absence of such direction, such funds shall be held uninvested, and any investment earnings thereon shall be retained in the Authority Fee Fund and disbursed to the Authority from time to time along with the balance of the Authority Fee Fund.

(f) Expense Fund. The Authority shall establish with the Bond Trustee a separate account to be known as the “Expense Fund – ESC – Series 2011” (the “Expense Fund”). A deposit to the credit of the Expense Fund will be made under the provisions of the Bond Indenture. Amounts on deposit in the Expense Fund shall be disbursed upon the written request of the Corporation for the payment of expenses for any recording, trustee’s and depository’s fees and expenses, accounting and legal fees, financing costs, and other fees and expenses incurred or to be incurred by or on behalf of the Authority or the Corporation in connection with or incident to the issuance and sale of the Bonds. At such time as the Bond Trustee is furnished with a written request of the Corporation stating that all such fees and expenses have been paid, and in no event later than the one year anniversary of the Closing Date, the Bond Trustee shall transfer any moneys remaining in the Expense Fund to the Interest Fund.

INVESTMENT OF FUNDS

The Bond Indenture provides that:

Moneys in the Interest Fund, Bond Sinking Fund and Optional Redemption Fund shall be invested in Qualified Investments upon a Written Request of the Corporation filed with the Bond Trustee. In the absence of written investment instructions, the Bond Trustee is directed to invest available funds in Qualified Investments described in paragraph (i) 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. The Bond Trustee, when authorized by the Corporation, may purchase or sell securities authorized in the Bond Indenture through itself or a related subsidiary as principal or agent, in the purchase and sale of securities for such investments; provided, however, that in no case shall any investment be otherwise than in accordance with the investment limitations contained in the Bond Indenture and in the Tax Exemption Agreement. The Bond Trustee shall not be liable or responsible for any loss resulting from any such investments.

All income in excess of the requirements of the funds held under the Bond Indenture derived from the investment of moneys on deposit in any such funds shall be deposited in:

- (i) The Bond Sinking Fund to the extent of the amount required to be deposited therein to make the next required principal payment on the Bonds occurring within 13 months of the date of deposit;
- (ii) The Interest Fund to the extent of the estimated amount required to be deposited therein to make any interest payment on the Bonds occurring within 13 months of the date of deposit; and
- (iii) The balance, if any, in the Optional Redemption Fund.

The Authority and the Corporation, by their execution of the Loan Agreement, acknowledge 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 waive receipt of such confirmations to the extent permitted by law. The Bond Trustee will furnish the Corporation (and the Authority to the extent requested by the Authority) periodic cash transaction statements which include detail for all investment transactions made by the Bond Trustee under the Bond Indenture.

ARBITRAGE; COMPLIANCE WITH THE TAX EXEMPTION AGREEMENT

The Authority and the Corporation covenant and agree that they will not take any action or fail to take any action with respect to the investment of the proceeds of the Bonds or with respect to the payments derived from Obligation No. 3 pledged under the Bond Indenture or from 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 Exemption Agreement, result in constituting the Bonds “arbitrage bonds” within the meaning of such term as used in Section 148 of the Code.

The Corporation covenants and agrees that it will not sell, lease or otherwise dispose of (including without limitation any involuntary disposition), directly or indirectly, in whole or in part, any portion of its portion of the Bond Financed Property unless the conditions set forth in the Tax Exemption Agreement related to the preservation of the tax-exempt status of interest on the Bonds are satisfied.

SUPPLEMENTAL BOND INDENTURES

The Authority and the Bond Trustee may, without the consent of, or notice to, any of the Bondholders, enter into an indenture or indentures supplemental to the Bond Indenture, as shall not be inconsistent with the terms and provisions of 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;

(d) to evidence the appointment of a separate 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 thereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States of America;

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

(g) to provide for the refunding or advance refunding of the Bonds, including the right to establish and administer an escrow fund and to take related action in connection therewith;

(h) in any other way which the Bond Trustee has determined does not materially adversely affect the rights or interests of any Bondholder.

The Authority and the Bond Trustee may not enter into an indenture or indentures supplemental to the Bond Indenture pursuant to subparagraphs (f) and (g) above unless they shall have received an Opinion of Bond Counsel to the effect that the issuance of coupon Bonds will not adversely affect the validity of such Bonds or any exemption from federal income tax to which the interest on the Bonds would otherwise be entitled.

In addition to supplemental indentures described in the preceding paragraphs under this caption, and subject to the terms and provisions described in the last three paragraphs under this caption, and not otherwise, the holders of 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 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 thereto 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 any supplemental indenture; provided, however, that nothing contained in the provisions of the Bond Indenture summarized under this caption shall permit, or be construed as permitting, (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 provided in the Bond Indenture, without the consent of the holders of all the Bonds at the time outstanding, (c) the creation of any lien prior to or on a parity with the lien of the Bond Indenture, without the consent of the holders of all the Bonds at the time outstanding, (d) a reduction in the 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, or (e) the modification of the rights, duties or immunities of the Bond Trustee, without the written consent of the Bond Trustee, which would adversely affect the rights of any holder of Bonds, without the consent of the holders of all Bonds at the time outstanding.

If at any time the Authority shall request the Bond Trustee to enter into any such supplemental indenture for any of the purposes described in the preceding paragraph, 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 by first class mail or an overnight delivery service, postage prepaid, to the registered owners of the Bonds at their addresses as the same shall appear on the Bond Register. Such notice shall briefly set forth the nature of the proposed supplemental indenture and shall state that

copies thereof are on file at the designated corporate trust 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 the Bond Indenture and summarized under this caption. If 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 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 described under this caption permitted and provided, the Bond Indenture shall be and be deemed to be modified and amended in accordance therewith.

Anything in the Bond Indenture to the contrary notwithstanding, so long as the Corporation is not in default under the Loan Agreement or the Members of the Obligated Group are not in default under the Master Indenture, a supplemental indenture described under this caption which adversely affects the rights of the Corporation under the Loan Agreement or any Member under the Master 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 sent by first class mail or an overnight delivery service, postage prepaid, to the Corporation at least 30 days prior to the proposed date of execution and delivery of any such supplemental indenture.

DEFEASANCE

If the Authority shall pay or provide for the payment of the entire indebtedness on all Bonds outstanding (including, for the purpose of the Bond Indenture, any 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, 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 maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in Government Obligations 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 in such amount as the Bond Trustee shall determine, in reliance on a certified public accountant's verification report, 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 all the Bonds outstanding (including the payment of premium, if any, and interest payable on such Bonds to maturity or redemption date thereof), at or before their respective maturity dates;

and if the Authority shall also pay or cause to be paid all other sums payable under the Bond Indenture by the Authority, then and in that case the Bond Indenture and the estate and rights granted thereunder 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 and an opinion of Independent Counsel, 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 and the lien thereof. The satisfaction and discharge of the Bond Indenture shall be without prejudice to the rights of the Bond Trustee to charge and be reimbursed by the Authority and the Corporation for any expenditures which it may thereafter incur in connection therewith.

All moneys, funds, securities, or other property remaining on deposit in the Interest Fund, Bond Sinking Fund, Optional Redemption Fund, Master Debt Service Reserve Transfer Fund, Expense Fund, Authority Fee Fund or in any other fund or investment under the Bond Indenture (other than said Government Obligations or other moneys deposited in trust as above provided) shall, upon the full satisfaction of the Bond Indenture, forthwith be transferred, paid over and distributed to the Authority and the Corporation, as their respective interests may appear; provided that if the Authority shall have no further interest in such moneys.

The Authority or the Corporation may at any time surrender to the Bond Trustee for cancellation by it any Bonds previously authenticated and delivered which the Authority or the Corporation may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

EVENTS OF DEFAULT; ACCELERATION

Each of the following events is declared an "event of default" under the Bond Indenture, that is to say, if:

- (a) payment of any installment of interest on any of the Bonds shall not be made when the same shall become due and payable; or
- (b) payment of the principal of or the redemption premiums, if any, on any of the Bonds shall not be made when the same shall become due and payable, whether such payment is at maturity or by proceedings for redemption, and whether such payment is expected to be paid from any Fund under the Bond Indenture or otherwise; or
- (c) the occurrence of an event of default as defined in the Loan Agreement and summarized in the first paragraph under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT – DEFAULTS AND REMEDIES"; or
- (d) the Authority shall for any reason be rendered incapable of fulfilling its obligations under the Bond Indenture; or
- (e) 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 in any agreement supplemental thereto on the part of the Authority to be performed,

and such default shall continue for 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Authority and the Corporation by the Bond Trustee; provided that the Bond Trustee may give notice in its discretion and shall give such notice at the written request of the holders of not less than 25% in aggregate principal amount of the Bonds then outstanding under the Bond Indenture; or

(f) the Authority, the Corporation or the Bond Trustee shall default in the performance of any covenant, condition, agreement or provision of the Tax Exemption Agreement, and such default shall continue for a period of 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the Corporation and the Bond Trustee, as the case may be, by any other party; provided that 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 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

(g) any event of default as defined in the Master Indenture shall occur and such event of default shall be continuing from and after the date the Authority is entitled to request that the Master Trustee declare Obligation No. 3 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.

Upon (i) the happening of any event of default specified in the provisions of the Bond Indenture summarized under subparagraphs (c), (d), (e), (f) or (g) above, and the continuance of the same for the period, if any, specified in said subparagraphs, the Bond Trustee may, without any action on the part of the Bondholders, or (ii) the happening of an event of default specified in subparagraphs (a) or (b) above, the Bond Trustee shall, or (iii) the happening and continuance of an event of default specified in subparagraphs (c), (d), (e), (f) or (g) above and the written request of the owners 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, the Bond Trustee shall, 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 summarized below under the caption "SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – WAIVER OF EVENTS OF DEFAULT" with respect to waivers of events of default and to the Bond Trustee being indemnified to its satisfaction. Upon the acceleration of the Bonds after an event of default, interest on the Bonds shall cease to accrue on the date of acceleration.

WAIVER OF EVENTS OF DEFAULT

The Bond Trustee may in its discretion 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 written request of the holders 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 under the Bond Indenture; 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 or at maturity specified therein or (b) any default in the payment when due of the interest on any such 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 or all arrears of payments of principal when due, as the case may be, and all expenses of the Bond Trustee, in connection with such default, shall have been paid or provided for.

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 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.

DIRECTION OF PROCEEDINGS

The holders of a majority in aggregate principal amount of the Bonds then outstanding 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 enforcement of the rights of the Authority under the Loan Agreement and the rights of the Bond Trustee as the holder of Obligation No. 3 or for the appointment of a receiver or any other proceedings under the Bond Indenture; provided, that such direction shall be in accordance with the provisions of law and of the Bond Indenture.

APPLICATION OF MONEYS

Subject to the provisions of the Tax Exemption Agreement, all moneys received by the Bond Trustee, by any receiver or by any Bondholder pursuant to any right given or action taken under the provisions of the Bond Indenture shall, after payment of the costs 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, including reasonable attorneys fees and expenses and all moneys so deposited during the continuance of an event of default under the Bond Indenture (other than moneys for the payment of Bonds which have previously matured or otherwise become payable prior to such event of default under the Bond Indenture or for the payment of interest due prior to such event of default under the Bond Indenture), together with all moneys in the funds maintained by the Bond Trustee under the Bond Indenture, shall be applied as follows:

(i) 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 of amounts, if any, payable pursuant to the Tax Exemption Agreement;

Second: 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; and

Third: To the payment to the Persons entitled thereto of the unpaid principal of any of the Bonds, which shall have become due (other than the Bonds called for redemption for the payment of which moneys are held pursuant to the provisions of the Bond Indenture), and, if the amount available shall not be sufficient to pay in full the

Bonds, then to the payment ratably, according to the amount of principal due to the Persons entitled thereto, without any discrimination or privilege;

(ii) 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 amounts, if any, payable pursuant to the Tax Exemption Agreement; and

Second: To the payment of the principal and interest then due and unpaid upon the Bonds, without preference or priority of principal over interest or 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.

(iii) 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 the Bond Indenture summarized in the next paragraph 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 the Bond Indenture summarized in the first paragraph under this caption.

Whenever moneys are to be applied by the Bond Trustee pursuant to the provisions of the 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, it shall fix the date (which shall be an Interest Payment Date unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts of principal to be paid on such date shall cease to accrue. The Bond Trustee shall give notice of the deposit with it of any such moneys and of the fixing of any such date and of the Special Record Date in accordance with the Bond Indenture ten days prior to the Special Record Date. The Bond Trustee shall not be required to make payment to the holder of any unpaid Bond until such Bond shall be presented to the Bond Trustee for appropriate endorsement or for cancellation if fully paid.

REMOVAL OF THE BOND TRUSTEE

The Bond Trustee may be removed at any time by an instrument or concurrent instruments in writing delivered to the Bond Trustee and the Authority and signed by the owners of a majority in aggregate principal amount of Bonds then outstanding. The foregoing notwithstanding, so long as no default has occurred and is continuing under the Bond Indenture or the Loan Agreement and so long as no event has occurred which would, with the giving of notice or the passage of time become an event of default under the Bond Indenture or the Loan Agreement, the Bond Trustee may be removed at any time upon the written request of the Corporation, and delivered to the Bond Trustee, the Authority. 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 Corporation 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 upon the later of the acceptance of the appointment by the successor Bond Trustee, or the 60th day next succeeding the date of such notice, unless the owners of 10% or more in aggregate principal amount of such Bonds then outstanding under the Bond Indenture 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, and to the Authority.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

The following is a summary of certain provisions of the Loan Agreement. Reference is made to the Loan Agreement for a full and complete statement of its provisions. The Corporation agrees that the proceeds of the Bonds being loaned to the Corporation shall be deposited with the Bond Trustee and applied as provided in the Bond Indenture.

REPRESENTATIONS BY THE CORPORATION

The Corporation is a nonprofit public benefit corporation duly incorporated and in good standing under the laws of the State of California, has full legal right, power and authority to enter into the Corporation Agreements, and to carry out all of its obligations under and consummate all transactions contemplated by the Loan Agreement and by the Corporation Agreements, and by proper corporate action has duly authorized the execution, delivery and performance of the Corporation Agreements.

There is no action, suit, proceeding, inquiry or investigation, before or by any court or federal, state, municipal or other governmental authority, pending, or to the knowledge of the Corporation, after reasonable investigation, threatened, against or affecting the Corporation or the assets, properties or operations of the Corporation which, if determined adversely to the Corporation or its interests, would have a material adverse effect upon the consummation of the transactions contemplated by, or the validity of, the Corporation Agreements, or upon the financial condition, assets, properties or operations of the Corporation, and the Corporation is not in default (and no event has occurred and is continuing which with the giving of notice or the passage of time or both could constitute a default) with respect to any order or decree of any court or any order, regulation or demand of any federal, state, municipal or other governmental authority, which default might have consequences that would materially and adversely affect the consummation of the transactions contemplated by the Corporation Agreements, or the financial condition, assets, properties or operations of the Corporation. All tax returns (federal, state and local) required to be filed by or on behalf of the Corporation have been filed, and all taxes shown thereon to be due, including interest and penalties, except such, if any, as are being actively contested by the Corporation in good faith, have been paid or adequate reserves have been made for the payment thereof which reserves, if any, are reflected in the audited financial statements described therein. The Corporation enjoys the peaceful and undisturbed possession of all of the premises upon which it is operating its facilities.

ASSIGNMENT AND PLEDGE OF AUTHORITY'S RIGHTS

As security for the payment of the Bonds, the Authority will assign and pledge to the Bond Trustee all right, title and interest of the Authority in and to the Loan Agreement, and the Bond Trustee is the holder of Obligation No. 3, including the right to receive payments thereunder and under the Loan Agreement (except its Unassigned Rights, including without limitation, the right to receive payment of expenses, fees, indemnification and the rights to make determinations and receive notices as provided in the Loan Agreement), and thereby directs the Corporation to make said payments directly to the Bond Trustee. The Corporation therewith assents to such assignment and pledge and will make payments directly to the Bond Trustee without defense or set-off by reason of any dispute between the Corporation and the Authority or the Bond Trustee, and agrees that its obligation to make payments under the Loan Agreement and to perform the other agreements contained in the Loan Agreement are absolute and unconditional. Until the principal of and interest on the Bonds shall have been fully paid or provision for

the payment of the Bonds made in accordance with the Bond Indenture, the Corporation (a) will not suspend or discontinue any payments provided for in the Loan Agreement, (b) will perform all its other duties and responsibilities called for by the Loan Agreement, and (c) will not terminate the Loan Agreement for any cause including any acts or circumstances that may constitute failure of consideration, destruction of or damage to the Facilities, commercial frustration of purpose, any change in the laws of the United States or of the State or any agency or political subdivision of either or any failure of the Authority to perform any of its agreements, whether express or implied, or any duty, liability or obligation arising from or connected with the Loan Agreement.

PAYMENTS IN RESPECT OF OBLIGATION NO. 3 AND THE LOAN AGREEMENT

Under the terms of the Loan Agreement, the Corporation agrees to pay the Bond Trustee such amounts at such times as to provide for payment of the principal of, premium, if any, and interest on the outstanding Bonds under the Bond Indenture when due, whether upon a scheduled Interest Payment Date, at maturity, upon any date fixed for prepayment or by acceleration or otherwise, and the continuance of such failure for five days. The Loan Agreement also requires that the Corporation pay certain other charges which may be incurred for such items as the Bond Trustee's fees, the Authority's fees and expenses, taxes and assessments, if any, and costs incurred in connection with the Bonds. All payments due on Obligation No. 3, except for certain enumerated payments described in the Loan Agreement, shall be paid directly to the Bond Trustee and applied in the manner provided in the Bond Indenture.

THE CORPORATION'S OBLIGATIONS UNCONDITIONAL

The Authority and the Corporation agree that the Corporation shall bear all risk of damage or destruction in whole or in part to its Facilities or any part thereof including without limitation any loss, complete or partial, or interruption in the use, occupancy or operation of such Facilities, or any manner or thing which for any reason interferes with, prevents or renders burdensome, the use or occupancy of such Facilities 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 on the amounts due under the Loan Agreement and on Obligation No. 3, to pay the other sums provided for in the Loan Agreement and to perform and observe the 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.

CERTAIN COVENANTS OF THE CORPORATION RELATING TO THE USE AND OPERATION OF CERTAIN OF ITS PROPERTY

No portion of the proceeds of the Bonds shall be used to finance or refinance any facility, place or building to be used (1) primarily for sectarian instruction or study or as a place for devotional activities or religious worship or (2) by a Person that is not an organization described in Section 501(c)(3) of the Code or a governmental unit (as described in the Code), or by an organization described in Section 501(c)(3) of the Code (including the Corporation) in an "unrelated trade or business" (as set forth in Section 513(a) of the Code), in such a manner or to such extent as would result in any of the Bonds being treated as an obligation not described in Section 103(a) of the Code.

INDEMNIFICATION

To the fullest extent permitted by law, the Corporation agrees to indemnify, hold harmless and defend the Authority, the Program Participants, the Association of Bay Area Governments, the Bond Trustee and each of their respective officers, governing members, directors, officials, employees,

attorneys and agents (collectively, the “Indemnified Parties”), against any and all losses, damages, claims, actions, liabilities, costs and expenses of any conceivable nature, kind or character (including, without limitation, attorneys’ fees, litigation and court costs, amounts paid in settlement and amounts paid to discharge judgments) to which the Indemnified Parties, or any of them, may become subject under or any statutory law (including federal or state securities laws) or at common law or otherwise, arising out of or based upon or in any way relating to:

(i) the Facilities, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of such Facilities or any part thereof;

(ii) the issuance of any Bonds and the carrying out of any of the transactions contemplated by the Loan Agreement;

(iii) the Bond Trustee’s acceptance or administration of the trust under the Bond Indenture, or the exercise or performance of any of its powers or duties thereunder, or;

(iv) any violation of any Environmental Regulations with respect to, or the release of any Hazardous Substances from, the Project or the Facilities or any part thereof; or

(v) any untrue statement or misleading statement or alleged untrue statement or alleged misleading statement of a material fact contained in any offering or disclosure document or disclosure or continuing disclosure document for the Bonds or any of the documents relating to the Bonds, or any omission or alleged omission from any offering or disclosure document or disclosure or continuing disclosure document for the Bonds of any material fact necessary to be stated therein in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading;

except (A) in the case of the foregoing indemnification of the Bond Trustee or any of its respective officers, members, directors, officials, employees, attorneys and agents, to the extent such damages are caused by the negligence or willful misconduct of such Indemnified Party; or (B) in the case of the foregoing indemnification of the Authority, the Program Participants, the Association of Bay Area Governments or any of their officers, members, directors, officials, employees, attorneys and agents, to the extent such damages are caused by the willful misconduct of such Indemnified Party. The Corporation further agrees, to the extent permitted by law, to pay or to reimburse the Authority, the Program Participants, the Association of Bay Area Governments and the Bond Trustee and their respective officers, officials, members, employees and agents for any and all costs, attorney’s fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions. The obligations of the Corporation shall not be affected by any assignment or other transfer by the Authority of its rights, title or interest under the Loan Agreement to the Bond Trustee pursuant to the Bond Indenture.

The rights of any persons to indemnity under the Loan Agreement and rights to payment of fees and reimbursement of expenses pursuant to the Loan Agreement shall survive the final payment or defeasance of the Bonds and in the case of the Bond Trustee any resignation or removal. The provisions of the Loan Agreement summarized under this caption shall survive the termination of the Loan Agreement.

MAINTENANCE OF CORPORATE EXISTENCE AND STATUS

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:

(a) the Corporation provides a certificate to the Authority and the Bond Trustee, in form and substance reasonably satisfactory to such parties, to the effect that no event of default exists under the Loan Agreement or under the Bond Indenture and that no event of default will be caused by the dissolution, liquidation, disposition, consolidation or merger;

(b) 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 Loan Agreement, the Tax Exemption Agreement and the Master Indenture;

(c) the Corporation or the entity surviving the dissolution, liquidation, disposition, consolidation or merger, within ten (10) 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;

(d) neither the validity nor the enforceability of the Bonds or the Bond Indenture is adversely affected by the dissolution, liquidation, disposition, consolidation or merger;

(e) the dissolution, liquidation, disposition, consolidation or merger will not adversely affect any exemption from federal income taxation to which interest on the Bonds would otherwise be entitled;

(f) 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;

(g) (i) neither the validity or enforceability of the Loan Agreement, the Master Indenture or the Tax Exemption Agreement will be adversely affected by the dissolution, liquidation, disposition, consolidation or merger and (ii) the provisions of the Act, the Bond Indenture, the Loan Agreement, the Master Indenture and the Tax Exemption Agreement are complied with concerning the dissolution, liquidation, disposition, consolidation or merger.

As of the effective date of the dissolution, liquidation, disposition, consolidation or merger, the Corporation (at its cost) shall furnish to the Authority and the 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 (c) above.

The Corporation further agrees that it will not act or fail to act in any other manner which would adversely affect any exemption from federal income taxation of the interest earned by the owners of the Bonds to which such Bonds would otherwise be entitled.

LICENSURE

The Corporation warrants that its Facilities have all material state and local licenses required for the operation thereof. The Corporation will obtain and maintain or cause to be obtained and maintained all such licenses required for the operation of its Facilities, including the Project, and will use its best efforts to obtain and maintain or cause to be obtained and maintained such licensure, so long as it is in the best interests of the Corporation and the Bondholders, as determined by the governing body of the Corporation.

FINANCIAL STATEMENTS

The Corporation covenants that it will keep 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 stated in the notes thereto), and will furnish the materials and notices required to be delivered to the Master Trustee under the Master Indenture to the Authority, to the Bond Trustee and to any requesting holder or holders of the Bonds.

SUPPLEMENTS AND AMENDMENTS TO THE LOAN AGREEMENT

Subject to the terms and provisions of the Bond Indenture summarized in the third paragraph under this caption, the Authority and the Corporation may, with the prior written consent of the Bond Trustee, amend or modify the Loan Agreement, or any provision thereof, or may consent to the amendment or modification thereof, in any manner not inconsistent with the terms and provisions of the Bond Indenture, for any one or more of the following purposes: (a) to cure any ambiguity or formal defect in the Loan Agreement; (b) to grant to or confer upon the Authority or Bond Trustee, for the benefit of the Bondholders, any additional rights, remedies, powers or authorities that lawfully may be granted to or conferred upon the Authority or the Bond Trustee; (c) to amend or modify the Loan Agreement, or any part thereof, in any manner specifically required or permitted by the terms thereof, including, without limitation, as may be necessary to maintain the exclusion from gross income for purposes of federal income taxation of the interest on the Bonds; (d) to modify, amend or supplement the Loan Agreement, or any part thereof, or any supplement thereto, in such manner as the Bond Trustee and Corporation deem necessary in order to comply with any statute, regulation, judicial decision or other law relating to secondary market disclosure requirements with respect to tax-exempt obligations of the type that includes the Bonds; (e) to provide that Bonds may be secured by additional security not otherwise provided for in the Bond Indenture or the Loan Agreement; (f) to provide for the appointment of a successor securities depository; (g) to provide for the availability of certificated Bonds; (h) to provide for the addition of any interest rate mode or to provide for the modification or deletion of any interest rate mode so long as no Bonds will be operating in the interest rate mode when it is to be so modified or deleted, or to amend, modify or alter the interest rate setting provisions, tender provision or conversion provisions for any then-existing interest rate mode so long as no Bonds will be operating in the interest mode when such provisions are to be so amended, modified or altered; provided that, in each case, there is delivered to the Bond Trustee an opinion of Bond Counsel stating that any such addition, deletion, amendment, modification or alteration will not adversely affect any exclusion from gross income for purposes of federal income taxation of interest on the Bonds; and (i) to make any other change which does not, in the opinion of the Bond Trustee, have a material adverse effect upon the interests of the Bondholders. In addition, subject to the terms and provisions contained in the Bond Indenture, the Bond Trustee may grant such waivers of compliance by the Corporation with the provisions of the Loan Agreement as to which the Bond Trustee may deem necessary or desirable to effectuate the purposes of the 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.

Except for the amendments, changes or modifications as described in the next paragraph, neither the Authority nor the Bond Trustee shall consent to any other amendment, change or modification of the Loan Agreement without the written approval or consent of the holders of a majority in aggregate principal amount of the Bonds which are outstanding under the Bond Indenture at the time of execution of any such amendment, change or modification; provided, however, that no such amendment, change or modification shall ever affect the obligation of the Corporation to make payments on Obligation No. 3 as they become due and payable. If at any time the Authority or the Corporation shall request the consent of the Bond Trustee to any such proposed amendment, change or modification of the Loan Agreement, the Bond Trustee shall, upon being satisfactorily indemnified with respect to expenses, cause notice of such proposed amendment, change or modification to be mailed in the same manner as described in the last three paragraphs under the caption “SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE – SUPPLEMENTAL BOND INDENTURES” above with respect to supplemental bond indentures. Such notice shall briefly set forth the nature of such proposed amendment, change or modification and shall state that copies of the instrument embodying the same 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 amendment, change or modification when consented to and approved as described in this paragraph. If the holders of a majority in aggregate principal amount of the Bonds outstanding under the Bond Indenture at the time of the execution of any such amendment, change or modification 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.

Under no circumstances shall any amendment to the Loan Agreement alter Obligation No. 3 pledged under the Bond Indenture regarding the payments of principal, premium, if any, and interest thereon, without the consent of the owners of all the Bonds outstanding.

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 principal, interest or premium on or any other payment required by the Loan Agreement, and failure of the Obligated Group to pay any installment of principal, interest or premium on Obligation No. 3, when the same shall become due and payable, whether upon a scheduled Interest Payment Date, at maturity, upon any date fixed for prepayment or by acceleration or otherwise, and the continuance of such failure for five days; or

(b) failure by the Corporation to perform or comply with any of the covenants, conditions or provisions of the Loan Agreement or of the Tax Exemption Agreement and to remedy such default within 30 days after notice thereof from the Authority to the Corporation; provided, however, that if failure to comply or perform with such covenants, conditions or provisions cannot be remedied within 30 days, but can be remedied, no “event of default” shall be deemed to have occurred or to exist if the Authority, in its discretion, shall consent to the Corporation commencing corrective action and the Corporation diligently pursues such corrective action until it shall have complied with or performed such covenants, conditions or provisions; or

(c) if 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 to the Loan Agreement including, without limitation, statements in the Official Statement, proves untrue in any material respect as of the date of the issuance or making thereof and shall not be made good within 60 days after notice thereof to the Corporation by the Authority or the Bond Trustee; provided, however, that if such default cannot be remedied within 60 days, but can be remedied, no “event of default” shall be deemed to have occurred or to exist if the Authority in its sole discretion, shall consent to the Corporation commencing corrective action and the Corporation diligently pursues such corrective action until such default has been cured; or

(d) any event of default shall occur under the Bond Indenture or the Master Indenture which would permit the acceleration of any obligation; or

(e) if 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 Facilities; or

(f) if a trustee, custodian or receiver is appointed for the Corporation or for the major part of its Facilities and is not discharged within 60 days after such appointment; or

(g) if 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

(h) if 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.

Whenever any event of default shall have occurred and be continuing under the Loan Agreement, the Authority may at its discretion, by written notice to the Corporation, request that the Bond Trustee declare the principal due under the Loan Agreement and Obligation No. 3 (if not then due and payable) to be due and payable immediately and such principal shall thereupon become immediately due and payable as if all of the sums of money payable thereunder were originally stipulated to be paid on such accelerated payment date, anything in the Loan Agreement or Obligation No. 3 to the contrary notwithstanding. The Authority shall, request that the Bond Trustee declare the principal due under the Loan Agreement and on Obligation No. 3 due and payable immediately upon the occurrence of any of the defaults described in subparagraphs (a), (e), (f), (g), or (h) above. This provision, however, is subject to the condition that if, at any time after the principal of Obligation No. 3 shall have been so declared and become due and payable, all arrears of interest, if any, upon the amounts due under the Loan Agreement and Obligation No. 3 and the expenses of the Authority shall be paid by the Corporation, and every other default in the observance or performance of any covenant, condition or agreement in the Loan Agreement or in Obligation No. 3 contained shall be made good, or be secured, to the satisfaction of the Authority, or provision deemed by the Authority to be adequate shall be made therefor, then and in every such case the Authority, by written notice to the Corporation may waive the event of default by reason of which the principal due under the

Loan Agreement and on Obligation No. 3 shall have been so declared and become due and payable and may rescind and annul such declaration and its consequences; provided, however, that there shall not be waived any event of default in the payment of the principal payable on the Bonds when due whether by mandatory or optional redemption or at the date of maturity specified therein; and provided further that no such waiver, rescission or annulment shall extend to or affect any subsequent event of default or impair any right consequent thereon. The Authority may by written notice to the Master Trustee, request that it declare the principal of Obligation No. 3 (if not then due and payable) to be due and payable immediately, subject to the provisions of the Master Indenture regarding waiver of events of default, anything in Obligation No. 3 or in the Loan Agreement contained to the contrary notwithstanding.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

GENERAL

The Master Indenture, as supplemented, authorizes the Corporation, as Obligated Group Representative, and each Member to issue Obligations which are full and unlimited obligations of the respective Obligated Group. The Obligations are joint and several obligations of the current and future Members of the Obligated Group.

Set forth below is a summary of certain provisions of the Master Indenture primarily relating to restrictions imposed on the Obligated Group with respect to debt service coverage requirements, the incurrence of Additional Indebtedness and certain other matters. The summary is not comprehensive and reference is made to the Master Indenture for a complete recital of its terms.

AUTHORIZATION OF OBLIGATIONS

Each Member authorizes to be issued from time to time Obligations or series of Obligations, without limitation as to amount, except as provided in the Master Indenture or as may be limited by law, and subject to the terms, conditions and limitations established under the Master Indenture.

PAYMENT OF PRINCIPAL AND INTEREST

Each Member jointly and severally covenants and agrees to pay or cause to be paid promptly all Required Payments at the place, on the dates and in the manner provided in the Master Indenture, in any Related Supplement and in the Obligations whether at maturity, upon proceedings for redemption, by acceleration or otherwise, and that each Member shall faithfully observe and perform all of the conditions, covenants and requirements of the Master Indenture, any Related Supplement and any Obligation, and that the time of such payment and performance is of the essence concerning the obligations under the Master Indenture.

PLEDGE OF GROSS REVENUES

Each Member covenants and agrees in the Master Indenture that, so long any Obligation remains Outstanding, all of the Gross Revenues of the Obligated Group shall be deposited as soon as practicable upon receipt in a fund (in one or more accounts at such banking institution or institutions as the Obligated Group Representative shall from time to time designate in writing to the Master Trustee for such purpose (the "Depository Bank(s)")) designated as the "Gross Revenue Fund" which the Members shall establish and maintain, subject to the provisions of the Master Indenture summarized in the next paragraph. Subject only to the provisions of the Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth therein, each Member pledges, and to the extent permitted by law, grants a security interest to the Master Trustee in, the Gross Revenue Fund and all of the Gross

Revenues of the Obligated Group to secure the payment of Required Payments and the performance by the Members of their other obligations under the Master Indenture; provided however that each Member may create, assume or suffer to exist Permitted Encumbrances. Each Member shall execute a depository account control agreement with each Depository Bank, and shall execute and deliver such other documents as may be necessary or reasonably requested by the Master Trustee in order to perfect or maintain as perfected such security interest or give public notice thereof.

Amounts in the Gross Revenue Fund may be used and withdrawn by any Member at any time for any lawful purpose, except as provided in the Master Indenture. If any Member is delinquent for more than one Business Day in the payment of any Required Payment with respect to any Obligation issued pursuant to a Related Supplement, the Master Trustee shall notify the Obligated Group Representative and the Depository Bank(s) of such delinquency, and, unless such Required Payment is paid, or provision for payment is duly made in a manner satisfactory to the Master Trustee in its sole discretion, within five days after receipt of such notice, the Obligated Group Representative or the appropriate Member shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Master Trustee. The Master Trustee shall continue to hold the Gross Revenue Fund until amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all Required Payments in default and all other Events of Default actually known to a Responsible Officer of the Master Trustee shall have been made good or cured to the satisfaction of the Master Trustee in its sole discretion or provision deemed by the Master Trustee in its sole discretion to be adequate shall have been made therefor, whereupon the Gross Revenue Fund (except for the Gross Revenues required to make such payments or cure such defaults) shall be returned to the name and credit of the appropriate Members. During any period that the Gross Revenue Fund is held in the name and to the credit of the Master Trustee, the Master Trustee shall use and withdraw amounts in said fund from time to time to make Required Payments as such payments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts shall not be sufficient to pay in full all such payments due on any date, then to the payment of 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, shall determine to be in the best interests of the Holders, without discrimination or preference. During any period that the Gross Revenue Fund is held in the name and to the credit of the Master Trustee, the Members shall not be entitled to use or withdraw any of the Gross Revenues of the Obligated Group unless and to the extent that the Master Trustee at its sole discretion so directs for the payment of current or past due operating expenses of the Members; provided, however, that the Members shall be entitled to use or withdraw any amounts in the Gross Revenue Fund which do not constitute Gross Revenues of the Obligated Group. Each Member agrees to execute and deliver all instruments as may be required to implement the provisions of the Master Indenture summarized under this caption. Each Member further agrees that a failure to comply with the terms of the Master Indenture summarized under this caption shall cause irreparable harm to the Holders and shall entitle the Master Trustee, with or without notice, to take immediate action to compel the specific performance of the obligations of the Members as described under this caption.

COVENANTS AS TO MAINTENANCE OF PROPERTIES, ETC.

Each Member, respectively, covenants and agrees:

(a) That it will operate and maintain its Principal Property 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 shall be required to comply with any law, ordinance, approval or regulation as long as it shall in good faith contest the validity thereof. Each Member, respectively, further covenants and agrees that it will maintain and operate its Principal Property and all engines, boilers, pumps, machinery,

apparatus, fixtures, fittings and equipment of any kind in or that shall be placed in any building or structure now or thereafter at any time constituting part of its Principal Property in good repair, working order and condition, and that it will from time to time make or cause to be made all needful and proper replacements, repairs, renewals and improvements so that the operations of such Member will not be materially 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 Principal Property 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 Principal Property 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 shall be required to pay any tax, assessment, rate or charge as provided in the Master Indenture as long as it shall in good faith contest the validity thereof, provided that such Member shall 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 collectability is being contested in good faith.

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

(e) That it will use its best efforts (as long as it is in its best interest and will not materially adversely affect the interests of the holders) to procure and maintain all permits, licenses and other governmental approvals necessary for the operation of its Property and to maintain its qualification for participation in and payment under private insurance programs having broad application and federal, state and local governmental programs providing for payment or reimbursement for services rendered.

(f) That it will take no action or suffer any action to be taken by others which would result in the interest on any Related Bonds issued as tax-exempt bonds becoming subject to federal income taxation.

INSURANCE REQUIRED

Each Member covenants and agrees that it will keep its Property and all of its operations adequately insured at all times and carry and maintain such insurance in amounts which are commercially feasible, customarily carried, subject to customary deductibles, and against such risks as are customarily insured against by other corporations in connection with the ownership and operation of facilities of similar character and size. For the purpose of this provision, the term Property shall be deemed to include Excluded Property.

The Obligated Group Representative shall employ an Insurance Consultant at least every two years to review the insurance requirements of the Members, unless the Obligated Group is self-insured, in which case an Insurance Consultant must be retained annually to review insurance requirements of the

Members. If the Insurance Consultant makes recommendations for the increase of any Members' insurance coverage, the Obligated Group Representative shall increase or cause to be increased such coverage in accordance with such recommendations, subject to a good faith determination of the Governing Body of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group. In lieu of maintaining insurance coverage that the Governing Body of the Obligated Group Representative deems necessary, the Members shall have the right to adopt alternative risk management programs that the Governing Body of the Obligated Group Representative determines to be reasonable and that shall not have a material adverse impact on reimbursement from third party payors; including, without limitation, the right to self-insure in whole or in part individually or in connection with other institutions, to participate in programs of captive insurance companies, to participate with other health care institutions in mutual or other cooperative insurance or other risk management programs, to participate in state or federal insurance programs, to take advantage of state or federal laws in existence limiting medical and malpractice liability, or to establish or participate in other alternative risk management programs; all as may be approved, in writing, as reasonable and appropriate risk management by the Insurance Consultant and reviewed each year thereafter.

The Master Trustee shall not be responsible for the sufficiency of any insurance required in the Master Indenture or for the obtaining of such insurance and in all events shall be fully protected in accepting payment on account of such insurance or any adjustment, compromise or settlement of any loss agreed to by any Member. The Obligated Group Representative shall cause to be delivered to the Master Trustee on the date the Master Indenture is executed and at least annually thereafter, no later than within 120 days following the date audited financial statements are required to be furnished pursuant to the Master Indenture, an Officer's Certificate stating that the Obligated Group is in compliance with the provisions of the Master Indenture summarized under this caption. The Master Trustee may conclusively rely on such Officer's Certificate.

LIMITATIONS ON ENCUMBRANCES

Each Member, respectively, covenants and agrees that it will not create, assume or suffer to exist any Lien upon the Gross Revenues or the Principal Property other than Permitted Encumbrances. Each Member, respectively, further covenants and agrees that if such a Lien is created or assumed by any Member, it will make or cause to be made effective a provision whereby all Obligations will be secured prior to any such Indebtedness or other obligation secured by such Lien. Nothing in the Master Indenture is intended to create an equitable or legal lien or interest on or in the Property, though the Deeds of Trust pledge certain Property to the Master Trustee for the benefit of the holders of the Obligations.

LIMITATIONS ON ADDITIONAL INDEBTEDNESS

Each Member, respectively, agrees not to incur any Additional Indebtedness except as follows:

(a) Long-Term Indebtedness, provided that:

(1) the aggregate principal amount of such Long-Term Indebtedness and all other Outstanding Long-Term Indebtedness incurred pursuant to the provisions of the Master Indenture summarized in this clause (1) does not exceed 10% of the Total Operating Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available immediately preceding the issuance of such Long-Term Indebtedness (provided that to the extent Long-Term Indebtedness initially incurred pursuant to this clause subsequently complies with any other incurrence

requirement, such Long-Term Indebtedness shall, at the option of the Obligated Group Representative, thereafter not be deemed to be incurred pursuant to this clause); or

(2) the Master Trustee receives an Officer's Certificate certifying the Long-Term Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, for the most recent complete Fiscal Year for which audited financial statements are available, which Long-Term Debt Service Coverage Ratio is not less than 1.20:1; or

(3) the Master Trustee receives:

(A) an Officer's Certificate, certifying that, taking into account all Outstanding Long-Term Indebtedness but not the Long-Term Indebtedness proposed to be incurred, for the most recent Fiscal Year for which audited financial statements are available, the Long-Term Debt Service Coverage Ratio is not less than 1.20:1; and

(B) either (i) an Officer's Certificate, accompanied by the written report of an Independent Consultant, stating the forecasted Long-Term Debt Service Coverage Ratio, taking into account the Long-Term Indebtedness proposed to be incurred, for (x) in the case of Long-Term Indebtedness to finance capital improvements, the Fiscal Year succeeding the date on which such capital improvements are expected to be in operation or (y) in the case of Long-Term Indebtedness issued for other purposes than are described in (x), the Fiscal Year succeeding the date on which the proposed Long-Term Indebtedness is to be incurred, is not less than 1.25:1, as shown by forecasted statements of revenues and expenses for such Fiscal Year, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based; or (ii) an Officer's Certificate stating the forecasted Long-Term Debt Service Coverage Ratio, taking into account the Long-Term Indebtedness proposed to be incurred, for (x) in the case of Long-Term Indebtedness to finance capital improvements, the two Fiscal Years succeeding the date on which such capital improvements are expected to be in operation or (y) in the case of Long-Term Indebtedness issued for other purposes than are described in (x), the two Fiscal Years succeeding the date on which the proposed Long-Term Indebtedness is to be incurred, is not less than 1.50:1, as shown by forecasted statements of revenues and expenses for such Fiscal Years, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based.

(b) Completion Indebtedness in an amount up to 10% of the principal amount of the Long-Term Indebtedness incurred for the subject project, if there is delivered to the Master Trustee a Construction Consultant's certificate to the effect that the Completion Indebtedness proposed to be incurred is (i) necessary to provide a completed and fully equipped facility of the type and scope contemplated at the time the original Long-Term Indebtedness was incurred, and (ii) necessary to complete the acquisition, construction and/or equipping in accordance with the general plans and specifications for such facility as originally prepared and approved in connection with the incurrence of the Long-Term Indebtedness, and (iii) in an amount estimated to be sufficient, together with other identified funds of the relevant Member, to complete the facility within the parameters described in clauses (i) and (ii) above.

(c) Long-Term Indebtedness incurred for the purpose of refunding, refinancing or replacing any Outstanding Long-Term Indebtedness so as to render it no longer Outstanding if the Master Trustee receives an Officer's Certificate to the effect that Maximum Annual Debt Service, taking into account the Long-Term Indebtedness proposed to be incurred, will not be increased by more than 15% as a result of such refunding, refinancing or replacement.

(d) Short-Term Indebtedness provided that:

(1) such Short-Term Indebtedness is incurred in compliance with the provisions described in subparagraph (a) above, treating such Short-Term Indebtedness for such purposes only as if it were Long-Term Indebtedness; or

(2) (i) the total amount of such Short-Term Indebtedness does not exceed 15% of Total Operating Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available; and (ii) in every Fiscal Year, there shall be at least a 30-day period when the balance of such Short-Term Indebtedness is reduced to an amount which shall not exceed 5% of Total Operating Revenues of the Obligated Group for the most recent Fiscal Year for which audited financial statements of the Obligated Group are available.

(e) Subordinated Indebtedness without limitation.

(f) Balloon Indebtedness or Interim Indebtedness provided that the conditions described in subparagraph (a) above are satisfied with respect to the incurrence of such Balloon Indebtedness or Interim Indebtedness utilizing the assumptions specified in clause (c) of the definition of "Maximum Annual Debt Service".

(g) Extendable Indebtedness provided that the conditions described in subparagraph (a) above are satisfied with respect to the incurrence of such Extendable Indebtedness utilizing the assumptions specified in clause (d) of the definition of "Maximum Annual Debt Service".

(h) Reimbursement and other obligations arising under reimbursement agreements relating to letters of credit or similar credit facilities used to secure Indebtedness otherwise permitted under this paragraph.

(i) Indebtedness which is non-recourse to any Member of the Obligated Group.

LIMITATIONS ON GUARANTIES

Each Member covenants and agrees that it will not enter into, or become liable with respect to, any Guaranty except:

(a) Guaranties of Indebtedness of another Member;

(b) Guaranties of Obligations;

(c) Any other Guaranty provided that the conditions described in subparagraph (a) under the caption "LIMITATIONS ON ADDITIONAL INDEBTEDNESS" above are satisfied with respect to the issuance of such Guaranty utilizing the assumptions specified in clause (a) of the definition of "Maximum Annual Debt Service".

RATES AND CHARGES; DEBT COVERAGE

Each Member covenants and agrees to fix, charge and collect rates, fees and charges for the use of its facilities and for the services furnished so that the Long-Term Debt Service Coverage Ratio of the Obligated Group as a whole meets the standards summarized under this caption.

(a) Within 120 days after the end of each Fiscal Year (commencing with the first full Fiscal Year following the execution of the Master Indenture) the Obligated Group Representative shall compute Income Available for Debt Service and Maximum Annual Debt Service and promptly furnish to the Required Information Recipients a Certificate setting forth the results of such computation.

(b) If the Long-Term Debt Service Coverage Ratio of the Obligated Group for any Fiscal Year is less than 1.20:1, the Master Trustee shall require the Obligated Group, at the Obligated Group's expense, to retain an Independent Consultant within 30 days following the calculation described in the immediately preceding paragraph to make recommendations with respect to the rates, fees and charges of the Obligated Group's methods of operation and other factors affecting its financial condition in order to increase such Long-Term Debt Service Coverage Ratio to at least 1.20:1 for the following Fiscal Year.

For purposes of calculations of the Master Indenture described under this caption, an unrestricted contribution from any Affiliate of any Member of the Obligated Group may, at the sole discretion of the Obligated Group Representative, be treated as Income Available for Debt Service being earned during the period of such calculation so long as the unrestricted contribution is made prior to the date the applicable Certificate is required to be delivered with respect to such calculation. If the unrestricted contribution is counted in a period prior to the date of such transfer in accordance with the previous sentence, it shall not be included in the calculation for the period in which such contribution was actually made.

If a written report of an Independent Consultant is delivered to the Master Trustee stating that Industry Restrictions have made it impossible for the ratio in this subparagraph (b) to be met, then such ratio shall be reduced to 1.00:1 for such Fiscal Year and determined by computing the Debt Service Coverage Ratio for such Fiscal Year (rather than the Long-Term Debt Service Coverage Ratio).

(c) A copy of the Independent Consultant's report and recommendations, if any, shall be filed with each of the Required Information Recipients within 60 days of retaining the Independent Consultant. Each Member shall follow each recommendation of the Independent Consultant applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of such Member) and permitted by law. The provisions of the Master Indenture summarized under this caption shall not be construed to prohibit any Member from serving indigent patients to the extent required for such Member to continue its qualification as a Tax-Exempt Organization or from serving any other class or classes of patients without charge or at reduced rates so long as such service does not prevent the Obligated Group from satisfying the other requirements described under this caption.

(d) Notwithstanding any other provisions of the Master Indenture, an Event of Default arising from the Long-Term Debt Service Coverage Ratio shall only occur under the Master Indenture if one or more of the following conditions applies:

(1) the Obligated Group fails to achieve a Long-Term Debt Service Coverage Ratio of at least 1.20:1, and (ii) fails to take all necessary action to comply with the procedures described under this caption for preparing a report, adopting a plan, and following all recommendations contained in such report or plan to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law; or

(2) the Obligated Group fails to achieve a Long-Term Debt Service Coverage Ratio of at least 1.00:1 for two consecutive Fiscal Years; or

(3) the Obligated Group fails to achieve a Long-Term Debt Service Coverage Ratio of at least 1.00:1 in any Fiscal Year in which it fails to have 125 Days Cash on Hand on each Testing Date, as defined under the caption "LIQUIDITY COVENANT" below.

SALE, LEASE OR OTHER DISPOSITION OF PROPERTY

Each Member agrees that it will not transfer any Property except as permitted in the provisions of the Master Indenture summarized under this caption.

(a) Each Member may sell, lease or otherwise dispose (including without limitation any involuntary disposition) of Property (either real or personal, including cash and investments) to another Member, except that none of the Property or any other Property financed with the proceeds of any Related Bonds issued as tax-exempt bonds shall be transferred by the Corporation to any other Member unless the Bond Trustee has received an Opinion of Bond Counsel to the effect that such transfer shall not adversely affect the validity of the Related Bonds or any exemption from federal income taxation to which such Related Bonds would otherwise be entitled.

(b) The Property sold, leased or otherwise disposed of does not, for any consecutive 12-month period, exceed 3% of the total Book Value or the Current Value of all Property of the Obligated Group and the Long-Term Debt Service Coverage Ratio was not less than 1.20:1 for the last Fiscal Year, and as of the end of the last fiscal quarter, the Obligated Group had not less than 125 Days' Cash on Hand after giving effect to the transaction. If the Long-Term Debt Service Coverage Ratio is not less than 1.20:1, the foregoing percentage of the total Book Value or Current Value may be increased as follows under the following conditions:

(1) to 5%, if Days Cash on Hand would not be less than 200 after the effect of such sale, lease or disposition of assets; or

(2) to 7.5%, if Days Cash on Hand would not be less than 300 after the effect of such sale, lease or disposition of assets; or

(3) to 10%, if Days Cash on Hand would not be less than 400 after the effect of such sale, lease or disposition of assets;

(c) A Member may transfer Property, including cash or cash equivalents, to a Person other than a Member or an Affiliate without limitation if:

(1) the transfer is (i) in return for other Property of equal or greater value and usefulness or (ii) in the ordinary course of business upon fair and reasonable terms; or

(2) prior to such sale, lease or other disposition there is delivered to the Master Trustee an Officer's Certificate of a Member stating that, in the judgment of the signer, such Property has, or within the next succeeding 24 calendar months is reasonably expected to, become inadequate, obsolete, worn out, unsuitable, unprofitable, undesirable or unnecessary and the sale, lease or other disposition thereof will not impair the structural soundness, efficiency or economic value of the remaining Property; or

(3) such Property consists solely of assets which are specifically restricted by the donor or grantor to a particular purpose which is inconsistent with their use for payment on the Obligations.

(d) If the amount of such Property sold, leased or otherwise disposed of does not, for any consecutive 12-month period, exceed 1% of the total Book Value or Current Value of all Property of the Obligated Group.

If any Property to be disposed in accordance with the provisions of the Master Indenture summarized under this caption is subject to a Lien, including any Deed of Trust, the Master Trustee shall, upon the request of the Obligated Group Representative, release such Property from the Lien pursuant to the terms of any documentation creating such Lien.

Nothing in the Master Indenture shall prohibit any Member from making secured or unsecured loans provided that (1) any such loan is evidenced in writing, (2) the Obligated Group Representative reasonably expects such loan to be repaid and (3) such loan bears interest at a reasonable rate of interest as determined in good faith by the Obligated Group Representative.

LIQUIDITY COVENANT

The Obligated Group covenants that it will calculate the Days Cash on Hand of the Obligated Group as of March 31 and September 30 of each Fiscal Year (each such date being a "Testing Date"). The Obligated Group shall include such calculations in the Officer's Certificates that are delivered on each March 31 and September 30 pursuant to the Master Indenture.

Each Obligated Group Member is required to conduct its business so that on each Testing Date the Obligated Group, as a whole, shall have not less than 125 Days Cash on Hand.

If the amount of Days Cash on Hand as of any Testing Date is less than 125, the Obligated Group Representative shall, within 30 days after receipt of the Officer's Certificate disclosing such deficiency, deliver an Officer's Certificate approved by a resolution of the Governing Body of the Obligated Group Representative to the Master Trustee setting forth in reasonable detail the reasons for such deficiency and adopting a specific plan setting forth steps to be taken designed to achieve the required level of Days Cash on Hand for future periods.

If the Obligated Group has not achieved 125 Days Cash on Hand by the next Testing Date following delivery of the Officer's Certificate required in the preceding paragraph, the Obligated Group Representative shall, within 30 days after receipt of the Officer's Certificate disclosing such deficiency, retain an Independent Consultant to make recommendations with respect to the rates, fees and charges of the Obligated Group and the Obligated Group's methods of operation and other factors affecting its financial condition in order to increase the Days Cash on Hand to the required level for future periods. A copy of the Independent Consultant's report and recommendations, if any, shall be filed with each of the Required Information Recipients within 60 days of the date such Independent Consultant is retained. Each Member of the Obligated Group shall follow each recommendation of the Independent Consultant

applicable to it to the extent feasible (as determined in the reasonable judgment of the Governing Body of the Member) and permitted by law.

Notwithstanding any other provision of the Master Indenture, failure of the Obligated Group to achieve the required liquidity covenant for any Fiscal Year shall not constitute an event of default under the Master Indenture if the Obligated Group takes all action necessary to comply with the procedures set forth above for preparing a report and adopting a plan and follows each recommendation contained in such report to the extent feasible (as determined by the Governing Body of the Obligated Group Representative) and permitted by law.

CONSOLIDATION, MERGER, SALE OR CONVEYANCE

Each Member agrees that it will not merge into, or consolidate with, one or more corporations which are not Members, or allow one or more of such corporations to merge into it, or sell or convey all or substantially all of its Principal Property to any Person who is not a Member, unless:

(1) Any successor corporation to such Member (including without limitation any purchaser of all or substantially all the Property of such Member) is a Person (other than a natural person) organized and existing under the laws of the United States of America or a state thereof and shall execute and deliver to the Master Trustee an appropriate instrument containing the agreement of such successor to assume, jointly and severally, the due and punctual payment of the principal of, premium, if any, and interest on all Obligations according to their tenor and the due and punctual performance and observance of all the covenants and conditions of the Master Indenture to be kept and performed by such Member;

(2) Immediately after such merger or consolidation, or such sale or conveyance, no Member would be in default in the performance or observance of any covenant or condition of any Related Loan Document or the Master Indenture;

(3) Assuming that any Indebtedness of any successor or acquiring corporation is Indebtedness of such Member and that the revenues and expenses of the Member for such most recent Fiscal Year include the revenues and expenses of such other corporation (A) immediately after such merger or consolidation, sale or conveyance, the Long-Term Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year for which financial statements that have been reported upon by independent certified public accountants are available would be not less than 1.20:1, or that such Long-Term Debt Service Coverage Ratio of the Obligated Group is greater than the Long-Term Debt Service Coverage Ratio of the Obligated Group was for such Fiscal Year prior to such merger or consolidation, sale or conveyance;

(4) If all amounts due or to become due on all Related Bonds have not been fully paid to the holders thereof or fully provided for, there shall be delivered to the Master Trustee an Opinion of Bond Counsel to the effect that under then-existing law the consummation of such merger, consolidation, sale or conveyance would not adversely affect the validity of such Related Bonds or the exemption otherwise available from federal or state income taxation of interest payable on such Related Bonds; and

(5) If any Related Bonds were rated by a Rating Agency prior to such merger, consolidation, sale or conveyance, written evidence that, after such merger, consolidation, sale or conveyance, all Related Bonds will have a rating of at least "BBB-" (or an equivalent rating) from at least one Rating Agency.

In case of any such consolidation, merger, sale or conveyance and upon any such assumption by the successor corporation, such successor corporation shall succeed to and be substituted for its predecessor, with the same effect as if it had been named in the Master Indenture as such Member. Each successor, assignee, surviving, resulting or transferee corporation of a Member must agree to become, and satisfy the conditions described under the caption "MEMBERSHIP IN THE OBLIGATED GROUP" below to becoming, a Member of the Obligated Group prior to any such succession, assignment or other change in such Member's corporate status. Any successor corporation to such Member thereupon may cause to be signed and may issue in its own name Obligations under the Master Indenture and the predecessor corporation shall be released from its obligations under the Master Indenture and under any Obligations, if such predecessor corporation shall have conveyed all Property owned by it (or all such Property shall be deemed conveyed by operation of law) to such successor corporation. All Obligations so issued by such successor corporation under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Obligations theretofore or thereafter issued in accordance with the terms of the Master Indenture as though all of such Obligations had been issued under the Master Indenture by such prior Member without any such consolidation, merger, sale or conveyance having occurred.

In case of any such consolidation, merger, sale or conveyance such changes in phraseology and form (but not in substance) may be made in Obligations thereafter to be issued as may be appropriate.

The Master Trustee may rely upon an Opinion of Independent Counsel as conclusive evidence that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions of the Master Indenture summarized under this caption and that it is proper for the Master Trustee under the provisions of the Master Indenture to join in the execution of any instrument required to be executed and delivered by the provisions of the Master Indenture summarized under this caption.

FINANCIAL STATEMENTS

As described in the forepart of this Official Statement under the heading, "FINANCIAL REPORTING," the Obligated Group has agreed to provide certain information to the Required Information Recipients.

APPROVAL OF CONSULTANTS

If at any time the Members of the Obligated Group are required to engage an Independent Consultant under the provisions of the Master Indenture summarized under the captions "RATES AND CHARGES; DEBT COVERAGE" and "LIQUIDITY COVENANT" above, such Independent Consultant shall be engaged in the manner set forth below in the provisions summarized under this caption (other than any determination of the Projected Rate pursuant to the Master Indenture, to which the provisions of the Master Indenture summarized under the caption "LIQUIDITY COVENANT" above do not apply).

Upon selecting an Independent Consultant as required by the provisions of the Master Indenture summarized under the captions "RATES AND CHARGES; DEBT COVERAGE" and "LIQUIDITY COVENANT" above, the Obligated Group Representative will notify the Master Trustee of such selection. The Master Trustee shall, as soon as practicable but in no case longer than five Business Days after receipt of notice, notify the holders of all Obligations outstanding of such selection. Such notice shall (i) include the name of the Independent Consultant and a brief description of the Independent Consultant, (ii) state the reason that the Independent Consultant is being engaged including a description of the covenant(s) of the Master Indenture that require the Independent Consultant to be engaged, and (iii) state that the holder of the Obligation will be deemed to have consented to the selection of the Independent Consultant named in such notice unless such Obligation holder submits an objection to the selected Independent Consultant in

writing (in a manner acceptable to the Master Trustee) to the Master Trustee within 15 days of the date that the notice is sent to the Obligation holders. No later than two Business Days after the end of the 15-day objection period, the Master Trustee shall notify the Obligated Group of the number of objections. If two-thirds (66.6%) or more in aggregate principal amount of the holders of the outstanding Obligations have been deemed to have consented to the selection of the Independent Consultant, the Obligated Group Representative may engage the Independent Consultant within five days of receiving notice of that consent. If more than one-third (33.3%) in aggregate principal amount of the owners of the Obligations outstanding have objected to the Independent Consultant selected, the Obligated Group Representative shall select another Independent Consultant within 14 days after receiving notice of such objection which may be engaged upon compliance with the procedures of the provisions summarized under this caption.

All Independent Consultant reports required under the Master Indenture shall be prepared in accordance with then-effective industry-appropriate standards.

When the Master Trustee notifies the holders of Obligations of such selection, the Master Trustee shall also request any Related Bond Trustee send a notice containing the information required by subparagraph (b) above to the owners of all of the Related Bonds outstanding. Such Related Bond Trustee shall, as the owner of an Obligation securing such Related Bonds, consent or object to the selection of the Independent Consultant in accordance with the response of the owners of such Related Bonds. If two-thirds (66.6%) or more in aggregate principal amount of the Related Bonds have been deemed to have consented to the selection of the Independent Consultant, the Bond Trustee shall approve the Independent Consultant within five days of receiving notice of that consent. If more than one-third (33.3%) in aggregate principal amount of the owners of the Related Bonds have objected to the Independent Consultant selected, the Bond Trustee shall reject the Independent Consultant within 14 days after receiving notice of such objection.

The 15-day notice period described in the second paragraph under this caption above may be extended by the Master Trustee in order to permit each Related Bond Trustee to give the owners of the Related Bonds 15 days to respond to the notice given by the Related Bond Trustee. By acceptance of an Obligation securing any Related Bonds, the Related Bond Trustee agrees to comply with the provisions of the provisions of the Master Indenture summarized under this caption.

MEMBERSHIP IN THE OBLIGATED GROUP

Additional Members may be added to the Obligated Group from time to time, provided that prior to such addition, the Master Trustee receives:

(a) a copy of a resolution of the proposed new Member which authorizes the execution and delivery of the Master Indenture or a Related Supplement and compliance with the terms of the Master Indenture;

(b) a Related Supplement pursuant to which the proposed new Member (1) agrees to become a Member; (2) agrees to be bound by the terms and restrictions imposed by the Master Indenture and Indebtedness represented by the Obligations; (3) irrevocably appoints the Obligated Group Representative as its agent and attorney-in-fact and grants to the Obligated Group Representative full power to execute Related Supplements authorizing the issuance of Obligations or Series of Obligations; and (4) designates any or all of its Property as Principal Property consistent with the determination of the Governing Body of the Obligated Group Representative that such Property is Principal Property, pursuant to the provisions of the Master Indenture summarized under the caption "DESIGNATION OF PRINCIPAL PROPERTY" below;

(c) an Opinion of Independent Counsel to the proposed new Member, which opinion states that the proposed new Member has taken all necessary action to become a Member, and upon execution of a Related Supplement, such proposed new Member will be bound by the terms of the Master Indenture;

(d) a description of any existing Long-Term Indebtedness of the proposed new Member and any Indebtedness which the proposed new Member plans to incur simultaneously with the execution of the Related Supplement;

(e) an Officer's Certificate (i) showing that the Obligated Group could issue at least one dollar of Long-Term Indebtedness under the provisions of the Master Indenture described in subparagraph (a) under the caption "LIMITATIONS ON ADDITIONAL INDEBTEDNESS" above immediately following the addition of such Member to the Obligated Group, or (ii) demonstrating that an event of default under the Master Indenture will be cured if the new Member becomes a Member of the Obligated Group; or (iii) to the effect that the Long-Term Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year would be not less than 1.20:1, or that such Long-Term Debt Service Coverage Ratio of the Obligated Group is greater than the Long-Term Service Coverage Ratio of the Obligated Group was for such Fiscal Year prior to such new Member joining the Obligated Group;

(f) an Opinion of Bond Counsel to the effect that the addition of such Member (1) under then existing law, would not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Bond otherwise entitled to such exemption; and (2) will not cause the Master Indenture or the Obligations issued under the Master Indenture to be subject to registration under federal securities laws or the Trust Indenture Act of 1939, as amended (or, that any such registration, if required, has occurred);

(g) 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;

(h) if any Related Bonds were rated by a Rating Agency prior to the proposed new Member becoming a Member of the Obligated Group, written evidence from such Rating Agency that, after such proposed new Member becomes a Member, all Related Bonds will have a rating of at least "BBB-" (or an equivalent rating) from at least one Rating Agency; and

(i) such additional documentation as may be required by the Related Supplements.

WITHDRAWAL FROM THE OBLIGATED GROUP

Any Member may withdraw from the Obligated Group, and be released from further liability or obligation under the provisions of the Master Indenture, provided that prior to such withdrawal, the Master Trustee receives:

(a) an Officer's Certificate stating 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; and

(b) an Officer's Certificate stating that such Member is not a Primary Obligor with respect to any Outstanding Obligations; and

(c) an Officer's Certificate (i) showing that the Obligated Group could issue at least one dollar of Long-Term Indebtedness under the provisions of the Master Indenture described in subparagraph (a) under the caption "LIMITATIONS ON ADDITIONAL INDEBTEDNESS" above immediately following the withdrawal of such Member from the Obligated Group, or (ii) demonstrating that an event of default under the Master Indenture will be cured if the withdrawing Member leaves the Obligated Group; or (iii) to the effect that (1) the Long-Term Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year would be not less than 1.20:1 immediately following withdrawal of such member, or that such Long-Term Debt Service Coverage Ratio of the Obligated Group is greater than the Long-Term Service Coverage Ratio of the Obligated Group was for such Fiscal Year prior to such Member withdrawing from the Obligated Group, and (2) the Days Cash on Hand of the Obligated Group would be not less than 125 immediately following withdrawal of such member; and

(d) an Opinion of Bond Counsel to the effect that the withdrawal of such Member, under then existing law, would not adversely affect the validity of any Related Bond or any exemption from federal or state income taxation of interest payable on such Bond to which such Bond would otherwise be entitled; and

(e) if any Related Bonds were rated by a Rating Agency prior to the Member withdrawing from the Obligated Group, evidence from such Rating Agency that, after such Member withdraws from the Obligated Group, all Related Bonds will have a rating of at least "BBB-" (or an equivalent rating) from at least one Rating Agency.

Upon compliance with the conditions summarized under this subcaption, the Master Trustee shall execute any documents reasonably requested by the withdrawing Member to evidence the termination of such Member's obligations under the Master Indenture, under any Related Supplements and under all Obligations.

INSURANCE AND CONDEMNATION PROCEEDS

Any insurance proceeds, condemnation award or payment in lieu of condemnation in an amount more than \$1,000,000 or 3% of the Obligated Group's assets, whichever is greater, shall, at the option of the Obligated Group Representative:

(a) Be deposited with the Master Trustee to apply to the prepayment or redemption of Obligations outstanding, on a pro rata basis; or

(b) Be applied by the Obligated Group to repair, renovate or rebuild the facilities subject to the payment; or

(c) For any other legitimate purpose, in the sole discretion of the Obligated Group Representative; or

(d) Be applied in any combination of (a), (b) and (c) above.

Notwithstanding the foregoing, in the case of the destruction of the Obligated Group's facilities or any portion thereof as a result of fire or other casualty, or any damage to such facilities or portion thereof as a result of fire or other casualty, any related proceeds in an amount more than \$1,000,000 or 3% of the Obligated Group's assets, whichever is greater, shall be applied pursuant to the Deeds of Trust in accordance with subparagraph (b) above.

Any Member may make agreements and covenants with the holder of any Indebtedness which is incurred in compliance with the provisions of the Master Indenture and which is secured by a Permitted Encumbrance with respect to the application or use to be made of insurance proceeds or condemnation awards which may be received in connection with Property which is subject to such Permitted Encumbrance.

DESIGNATION OF PRINCIPAL PROPERTY

The Obligated Group Representative (a) shall monitor the Property of the Members at least annually to determine whether such Property meets the qualifications contained in clause (a) of the definition of Principal Property; and (b) shall determine, at the time a Member is added to the Obligated Group, whether any property of the Member (that will constitute Property upon such Member joining the Obligated Group) satisfies the description contained in clause (a) of the definition of Principal Property.

Upon such determination, the Governing Body of the Obligated Group Representative shall designate by resolution such Property as Principal Property under the Master Indenture, and, pursuant to the provisions of the Master Indenture summarized under the caption “MEMBERSHIP IN THE OBLIGATED GROUP” above, each Member, upon joining the Obligated Group, shall designate such Property as Principal Property. Any such designation by the Obligated Group Representative is conclusive and binding upon the Members.

ADDITIONS TO EXCLUDED PROPERTY

Exhibit C to the Master Indenture (Description of Excluded Property) may be amended to include additional real property acquired by a Member subsequent to the Closing Date and all improvements, fixtures, tangible personal property and equipment located thereon and used in connection therewith upon the receipt by the Master Trustee of an Officer’s Certificate of such Member stating that the total value of such Property included on Exhibit C to the Master Indenture does not exceed 10% of the total value of Property of the Obligated Group (calculated on the basis of the Book Value of the assets shown on the asset side of the balance sheet in the consolidated financial statements of the Obligated Group for the most recent Fiscal Year next preceding the date of such amendment to Exhibit C thereto for which consolidated financial statements reported on by independent certified public accountants are available or, if the Obligated Group Representative so elects, on the basis of Current Value).

PARITY DEBT SERVICE RESERVE FUND

(a) The Master Trustee shall establish and maintain a separate account to be known as the “Parity Debt Service Reserve Fund – Episcopal Senior Communities” (the “Parity Debt Service Reserve Fund”). All moneys received by the Master Trustee and held in the Parity Debt Service Reserve Fund shall be trust funds under the terms of the Master Indenture for the benefit of all of the Obligations relating to DSRF Bonds that are Outstanding under the Master Indenture (except as otherwise provided). All moneys in the Parity Debt Service Reserve Fund shall be applied in accordance with the provisions of the Master Indenture and shall not be subject to lien or attachment of any creditor of any Member. As of the execution and delivery of the Master Indenture, the Parity Debt Service Reserve Fund holds the Forward Sale Agreement.

(b) Upon the Obligated Group Representative’s written notice to the Master Trustee that a series of Related Bonds is to become DSRF Bonds and upon deposit with the Master Trustee of an amount at least equal to the DSRF Qualification Amount for such Related Bonds from (i) proceeds of such Related Bonds, (ii) such other amounts as the Members may pledge, through a written notice provided by the Obligated Group Representative to the Master Trustee, to the DSRF Qualification

Amount for such Related Bonds, including without limitation any amounts that are on deposit in the Parity Debt Service Reserve Fund in excess of the Parity Debt Service Reserve Requirement, or (iii) any combination of clauses (i) and (ii), then:

(1) the Master Trustee shall deposit any additional funds received pursuant to this subsection (b) in the Parity Debt Service Reserve Fund; and

(2) such Related Bonds shall be deemed DSRF Bonds under the Master Indenture and receive the benefit and security of the Parity Debt Service Reserve Fund until the prepayment, redemption or defeasance of such DSRF Bonds in full or as otherwise provided under the Master Indenture.

As of the execution and delivery of the Master Indenture, the Series 2000 COPs and the Series 2011 Bonds are DSRF Bonds. Notwithstanding any other provision of the Master Indenture, for purposes of calculating the Parity Debt Service Reserve Requirement, the Series 2000 COPs shall be deemed to bear interest at an assumed rate of 4%.

(c) The Parity Debt Service Reserve Fund shall be administered as follows:

(1) Except as otherwise provided in the Master Indenture, moneys in the Parity Debt Service Reserve Fund shall only be disbursed in accordance with the provisions described under this subsection (c)(1). Such disbursements shall be subject in all cases to the provisions described in subsection (c)(1)(vii) below.

(i) Within three Business Days after receipt by the Master Trustee of a written notice to the Master Trustee by a Related Bond Trustee of DSRF Bonds certifying (i) the existence of a deficiency in the Interest Fund or Bond Sinking Fund under such trustee's Related Bond Indenture and (ii) the amount of the deficiency, the Master Trustee shall transfer to such Related Bond Trustee an amount from the Parity Debt Service Reserve Fund equal to the lesser of the deficiency and the amount of the Pro Rata Portion Available for such DSRF Bonds.

If a draw by a Related Bond Trustee pursuant to the previous paragraph would be insufficient to avoid an event of default under the Related Bond Indenture for its DSRF Bonds (such DSRF Bonds, the "Default Risk Bonds"), the Related Bond Trustee for the Default Risk Bonds may request that the Master Trustee seek approval from one or more other Related Bond Trustees for DSRF Bonds (each such series DSRF Bonds in this capacity, the "Protecting Bonds") of additional money, money which would come from the Pro Rata Portion Available for the Protecting Bonds. The Master Trustee shall notify the Related Bond Trustees for Protecting Bonds of the request for funds. Each Related Bond Trustee for Protecting Bonds shall seek approval from the holders of the Protecting Bonds for release of all or a portion of the Pro Rata Portion Available to such Protecting Bonds. If any Related Bond Trustee for such Protecting Bonds obtains the written consent of the holders of a majority in aggregate principal amount of its Protecting Bonds and provides the Master Trustee with a written certification of such consent, the Master Trustee shall transfer the approved amount from the Pro Rata Portion Available to the applicable series of Protecting Bonds to the Related Bond Trustee for the Default Risk Bonds. A transfer pursuant to this paragraph shall be deemed a draw by the Related Bond Trustee for the applicable series Protecting Bonds.

(ii) In connection with any partial prepayment, redemption or defeasance prior to maturity of any series of DSRF Bonds or the funding of a new debt service reserve fund concurrent with such partial prepayment, redemption or defeasance, the Master Trustee shall, at the written request of the Related Bond Trustee for such DSRF Bonds made at least 20 Business Days prior to the applicable prepayment, redemption or defeasance date (which request shall identify the amount necessary to pay the principal of or the principal portion of the redemption price of said DSRF Bonds to be prepaid, redeemed or defeased), transfer on such prepayment, redemption or defeasance date the lesser of the amount requested and the amount of the Pro Rata Portion Available for such DSRF Bonds.

(iii) Within two Business Days of the Master Trustee's receipt of the computations provided in the Master Indenture, the Master Trustee shall transfer amounts on deposit in the Parity Debt Service Reserve Fund in excess of the Parity Debt Service Reserve Requirement to the Related Bond Trustees pro rata based on the respective amounts of Annual Debt Service for the DSRF Bonds (excluding Related Bonds that are not DSRF Bonds) for the then-current Fiscal Year; provided, however, that during the period beginning with the execution and delivery of the Master Indenture and ending on the later of (1) December 31, 2012 and (2) such later date as may be indicated in an Opinion of Bond Counsel issued prior to December 31, 2012, this sentence shall not require the liquidation of the Forward Sale Agreement. On the first Business Day after January 1, 2013 or such later date as indicated in the Opinion of Bond Counsel described in clause (2) of the previous sentence, the Master Trustee shall test whether the Parity Debt Service Reserve Fund contains an amount in excess of the then-current Parity Debt Service Reserve Requirement and shall transfer any such excess amounts to the Related Bond Trustees pro rata based on the respective amounts of Annual Debt Service for the DSRF Bonds (excluding Related Bonds that are not DSRF Bonds) for the then-current Fiscal Year.

(iv) Within two Business Days after receipt by the Master Trustee of a written notice from the Series 2000 Trustee that no reimbursement agreement executed in connection with a letter of credit is in effect with respect to the Series 2000 COPs, the Master Trustee shall transfer to the Series 2000 Trustee an amount equal to the Reserve Requirement, as that term is defined in the Series 2000 Trust Agreement, from amounts that are on deposit in the Parity Debt Service Reserve Fund. Upon such transfer, the Series 2000 COPs shall no longer be designated as DSRF Bonds; provided, however, that the Master Trustee shall be under no obligation to comply with this paragraph in the event that the Series 2000 Trust Indenture has been amended such that, at least so long as the Master Indenture is in effect, Section 6.5 of the Series 2000 Trust Indenture shall not apply.

(v) For purposes of this subsection (c)(1), the Master Trustee shall prioritize the uses of moneys in the Parity Debt Service Reserve Fund such that the Forward Sale Agreement shall be liquidated only if other moneys in the Parity Debt Service Reserve Fund are insufficient to allow the Master Trustee to comply with its obligations under this subsection (c).

(2) The Members shall replenish the Parity Debt Service Reserve Fund as follows:

(i) If at any time the amount on deposit in the Parity Debt Service Reserve Fund is less than 100% of the Parity Debt Service Reserve Requirement as a result of the

Parity Debt Service Reserve Fund having been drawn upon pursuant to subsection (c)(1)(i), the Master Trustee shall notify the Obligated Group Representative of such transfer and the Members agree to restore the amount on deposit in the Parity Debt Service Reserve Fund to an amount equal to the Parity Debt Service Reserve Requirement by depositing with the Master Trustee an amount equal to such deficiency in not more than 12 substantially equal monthly installments beginning with the first day of the seventh month after the month in which such draw occurred. With each such deposit to the Master Trustee, the Obligated Group Representative shall identify in writing which Related Bond Trustee's draw the deposit shall restore or, if multiple Related Bond Trustees have made draws, apportion the restoration between or among such Related Bond Trustees. Upon receipt of any such deposit and identification, the Master Trustee shall deposit the amount in the Parity Debt Service Reserve Fund, and the Pro Rata Portion Available to the respective Related Bond Trustees shall be restored by the amount the Obligated Group Representative indicated pursuant to the previous sentence.

(ii) If on a Valuation Date the amount on deposit in the Parity Debt Service Reserve Fund is less than 90% of the Parity Debt Service Reserve Requirement as a result of a decline in the market value of investments on deposit in the Parity Debt Service Reserve Fund, the Members agree to pay an amount equal to the deficiency in the Parity Debt Service Reserve Fund in order to restore the amount on deposit in the Parity Debt Service Reserve Fund to an amount equal to the Parity Debt Service Reserve Requirement within not more than 120 days following the date the Obligated Group Representative receives notice of such deficiency. For purposes of this paragraph, Qualified Investments in the Parity Debt Service Reserve Fund shall be valued by the Master Trustee on the Valuation Date on the basis of fair market value (which valuation shall take into account any accrued and unpaid interest).

(3) The Master Trustee shall release all amounts on deposit in the Parity Debt Service Reserve Fund to the Obligated Group Representative and shall close the Parity Debt Service Reserve Fund upon receipt by the Master Trustee of an Officer's Certificate of the Obligated Group Representative requesting such release, which Officer's Certificate shall state that (a) all DSRF Bonds have been prepaid, redeemed or defeased and (b) no Event of Default has occurred and is continuing under the Master Indenture.

INVESTMENT OF FUNDS

Moneys in the Parity Debt Service Reserve Fund shall be invested in Qualified Investments upon a written request of the Obligated Group Representative filed with the Master Trustee. In the absence of written investment instructions, the Master Trustee is directed to invest available funds in Qualified Investments described in paragraph (i) of the definition thereof. Moneys on deposit in the Parity Debt Service Reserve Fund may be invested to mature on the final maturity date of all DSRF Bonds. The Master Trustee, when authorized by the Obligated Group Representative, may purchase or sell securities authorized in the Master Indenture through itself or a related subsidiary as principal or agent, in the purchase and sale of securities for such investments; provided, however, that in no case shall any investment be otherwise than in accordance with the investment limitations contained in the Master Indenture and in any Related Tax Exemption Agreement relating to any DSRF Bonds. The Master Trustee shall not be liable or responsible for any loss resulting from any such investments. Nothing in this paragraph shall be construed to require the Master Trustee to liquidate the Forward Sale Agreement.

DEFAULTS AND REMEDIES

Events of Default

Each of the following events is an Event of Default under the Master Indenture:

(a) Failure on the part of the Obligated Group to make due and punctual payment of the principal of, redemption premium, if any, or interest on an Obligation.

(b) Failure of any Member to duly observe and perform any other covenant or agreement under the Master Indenture (including covenants or agreements contained in any Obligation) for a period of 60 days after the date on which written notice of such failure, requiring the same to be remedied, shall 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.

(c) Default by any Member in the payment of any Indebtedness for borrowed moneys (other than an Obligation), whether such Indebtedness exists or shall be created, and any period of grace with respect thereto shall 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 exists or shall be created, shall occur; provided, however, that such default shall not constitute an Event of Default within the meaning of this section if within 60 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced (1) any Member in good faith commences proceedings to contest the existence or payment of such Indebtedness, and (2) sufficient moneys are escrowed with a bank or trust company or a bond acceptable to the Master Trustee is posted for the payment of such Indebtedness.

(d) Entry by a court having jurisdiction of a decree or order for (1) relief with respect to any Member in an involuntary case under any applicable federal or state bankruptcy, insolvency or other similar law in effect, or (2) appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) for any Member or for any substantial part of the property of any Member, or (3) winding up or liquidation of its affairs, and such decree or order shall remain unstayed and in effect for a period of 60 consecutive days.

(e) Occurrence of the following actions of any Member: (1) commencement of a voluntary case under any applicable federal or state bankruptcy, insolvency or other similar law in effect, (2) consent to the entry of an order for relief in an involuntary case under any such law, or (3) 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 (4) making any general assignment for the benefit of creditors, or (5) failure to generally pay its debts as they become due, or (6) taking any corporate action in furtherance of the foregoing.

(f) An event of default shall exist under any Related Bond Indenture or under any Deed of Trust.

Acceleration; Annulment of Acceleration

Upon the occurrence and during the continuation of an Event of Default, the Master Trustee may and, upon (1) 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 described in subparagraph (a) under the subcaption “*Events of Default*” above, has occurred or (2) the acceleration of any Obligation pursuant to the terms of the Related Supplement under which such Obligation was issued, shall, by notice to the Members, declare all Outstanding Obligations immediately due and payable. Upon such declaration of acceleration, all Outstanding Obligations shall become and be immediately due and payable. If the terms of any Related Supplement give a Person the right to consent to acceleration of the Obligations issued pursuant to such Related Supplement, the Obligations issued pursuant to such Related Supplement may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Related Supplement. In the event of acceleration, an amount equal to the aggregate principal amount of all Outstanding Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues on such principal and interest to the date of payment, shall be due and payable on the Obligations.

At any time after the Master Trustee has declared the principal of the Obligations to be due and payable, and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of an Event of Default, the Master Trustee may annul such declaration and its consequences if:

(1) the Obligated Group has paid or caused to be paid (or deposited with the Master Trustee moneys sufficient to pay) all payments then due on all Outstanding Obligations (other than the principal or other payments then due only because of such declaration);

(2) 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;

(3) the Obligated Group has paid all other amounts then payable by the Obligated Group under the Master Indenture (or a sum sufficient to pay the same shall have been deposited with the Master Trustee); and

(4) 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) shall have been remedied.

No such annulment shall extend to or affect any subsequent Event of Default or impair any right consequent thereon.

Additional Remedies and Enforcement of Remedies

Upon the occurrence and continuance of any Event of Default, the Master Trustee may, and upon the request of (1) the Holders of not less than 25% in aggregate principal amount of the Obligations Outstanding, (2) any Holder which, pursuant to a Related Supplement, is given the right to require the Master Trustee to institute actions pursuant to the provisions described in this paragraph, or (3) any Holder if an Event of Default described in subparagraph (a) under the subcaption “*Events of Default*” above” has occurred, shall upon the indemnification of the Master Trustee to its satisfaction therefor, 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 its counsel, shall deem expedient, including but not limited to:

(1) Enforcement of the right of the Holders to collect and enforce the payment of amounts due or becoming due under the Obligations and exercise of the Master Trustee’s rights described in subparagraph (b) under the caption “*PLEDGE OF GROSS REVENUES*” above to direct

the transfer of the Gross Revenue Fund to the Master Trustee and to hold and use the same in accordance with the provisions of the Master Indenture summarized under the caption “PLEDGE OF GROSS REVENUES” above.

Application of Revenues and Other 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 the costs and expenses of any action, proceeding or the like resulting in the collection of such moneys and payment of the fees, costs, expenses, advances and all other amounts owed to the Master Trustee, together with all moneys in the Parity Debt Service Reserve Fund maintained by the Master Trustee described under the caption “PARITY DEBT SERVICE RESERVE FUND” above, shall be applied as follows:

(1) If the Master Trustee has not declared the principal of all Outstanding Obligations due and payable:

First: To the payment of all installments of interest then due on the Obligations in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments due on the same date, then to the payment thereof ratably, according to the amounts of interest due on such date, without any discrimination or preference; and

Second: To the payment of the unpaid installments of principal then due on the Obligations, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available is not sufficient to pay in full all installments due on the same date, then to the payment thereof ratably, according to the amounts of principal due on such date, to the Persons entitled thereto, without any discrimination or preference.

(2) If the Master Trustee has declared all Outstanding Obligations due and payable (and has not annulled such declaration under the terms of the Master Indenture), to the payment of the principal and interest then due and unpaid upon the Obligations and, if the amount available is not sufficient to pay in full the whole amount then due and unpaid, then to the payment thereof ratably, without preference or priority of principal over interest, of interest over principal, of any installment over any other installment, or of any Obligation over any other Obligation, according to the amounts due, without any discrimination or preference.

Such moneys shall be applied by the Master Trustee as it shall determine, having due regard for the amount of moneys available for application and the likelihood of additional moneys becoming available in the future. Whenever the Master Trustee shall apply such moneys, it shall 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 shall cease to accrue. The Master Trustee shall 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. The Master Trustee shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation (and all unmatured coupons, if any) is presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

Whenever all Obligations have been paid under the terms of the Master Indenture summarized under this subcaption and all expenses and charges of the Master Trustee have been paid, any balance remaining shall be paid to the Person entitled to receive such balance. If no other Person shall be entitled thereto, then the balance shall be paid to the Members, their successors, or as a court of competent jurisdiction may direct.

Remedies Not Exclusive

No remedy by the terms of the Master Indenture conferred upon or reserved to the Master Trustee or the Holders is intended to be exclusive of any other remedy. Each remedy shall be cumulative and shall be in addition to every other remedy given under the Master Indenture or existing at law or in equity on or after the date of the Master Indenture.

Remedies Vested in the Master Trustee

All rights of action (including the right to file proof of claims) under the Master Indenture or under any of the Obligations may be enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto. Any such suit or proceeding instituted by the Master Trustee may be brought in its name as the Master Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Obligations. Subject to the provisions of the Master Indenture summarized under the subcaption “*Application of Revenues and Other Moneys After Default*” above, any recovery or judgment shall be for the equal benefit of the Holders of the Outstanding Obligations.

Master Trustee to Represent Holders

The Master Trustee is irrevocably appointed (and the successive respective Holders of the Obligations, by taking and holding the same, shall be conclusively deemed to have so appointed the Master Trustee) as trustee and true and lawful attorney-in-fact of the Holders of the Obligations for the purpose of exercising and prosecuting on their behalf such rights and remedies as may be available to such Holders under the provisions of the Master Indenture, the Obligations, any Related Supplement, and applicable provisions of any other law. In addition to the provisions described under the subcaption “*Additional Remedies and Enforcement of Remedies*” above, upon the occurrence and continuance of an Event of Default or other occasion giving rise to a right in the Master Trustee to represent the Holders, the Master Trustee may, and upon the written direction of the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding, and upon being indemnified to its satisfaction therefor, shall, proceed to protect or enforce its rights or the rights of such Holders by such appropriate action, suit, mandamus or other proceedings as it shall deem most effectual to protect and enforce any such right, at law or in equity, either for the specific performance of any covenant or agreement contained in the Master Indenture, or in aid of the execution of any power granted in the Master Indenture, or for the enforcement of any other appropriate legal or equitable right or remedy vested in the Master Trustee or in such Holders under the Master Indenture, the Obligations, any Related Supplement, or any other law; and upon instituting such proceeding, the Master Trustee shall be entitled, as a matter of right, to the appointment of a receiver of the assets pledged under the Master Indenture, pending such proceedings. All rights of action under the Master Indenture, the Obligations or Related Supplement, or otherwise may be prosecuted and enforced by the Master Trustee without the possession of any of the Obligations or the production thereof in any proceeding relating thereto, and any such suit, action or proceeding instituted by the Master Trustee shall be brought in the name of the Master Trustee for the benefit and protection of all the Holders of such Obligations, subject to the provisions of the Master Indenture.

Holders' Control of Proceedings

If an Event of Default shall 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 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 under the Master Indenture. However, the Master Trustee shall not follow any such direction that is in conflict with any applicable law or the provisions of the Master Indenture or, in the sole judgment of the Master Trustee, is unduly prejudicial to the interest of Holders not joining in such direction. Nothing described in this paragraph shall impair the right of the Master Trustee in its discretion to take any other action authorized by the Master Indenture that it may deem proper and which is not inconsistent with such direction by Holders. Nothing in the Master Indenture shall affect or impair the rights of any Holder to enforce the payment of principal of, interest on and other amounts due under the Obligation held by such Holder or any agreement or instrument secured by such Obligation, by suit or other action available pursuant thereto or in law or in equity.

Termination of Proceedings

In case any proceeding taken by the Master Trustee on account of an Event of Default is discontinued or abandoned for any reason or is determined adversely to the Master Trustee or to the Holders, then the Members, the Master Trustee and the Holders shall be restored to their former positions and rights under the Master Indenture, and all rights, remedies and powers of the Master Trustee and the Holders shall continue as if no such proceeding had been taken.

Waiver of Event of Default

No delay or omission of the Master Trustee or of any Holder to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of or acquiescence to any such Event of Default. Every power and remedy given by the Master Indenture, summarized under this caption, to the Master Trustee and the Holders may be exercised from time to time and as often as may be deemed expedient by them.

The Master Trustee may waive any Event of Default which in its opinion shall 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 thereunder.

Notwithstanding anything contained in the Master Indenture to the contrary, upon the written request of the Holders of at least a majority of the aggregate principal amount of Obligations then Outstanding, the Master Trustee shall waive any Event of Default under the Master Indenture and its consequences; provided, however, that, except under the circumstances described in the second paragraph under the subcaption "*Acceleration; Annulment of Acceleration*" above, a default in the payment of the principal of, premium, if any, or interest on any Obligation when due may not be waived without the written consent of the Holders of all Outstanding Obligations.

If the Master Trustee waives an Event of Default under the Master Indenture, the Members, the Master Trustee and the Holders shall be restored to their former positions and rights. No such waiver shall extend to, or impair any right with respect to any other Event of Default.

Appointment of Receiver

Upon the occurrence of any Event of Default, the Master Trustee shall be entitled, (a) without declaring the Obligations to be due and payable, (b) after declaring the same to be due and payable, or (c) upon the commencement of any proceeding to enforce any right of the Master Trustee or the Holders, to the appointment of a receiver or receivers of any or all of the Property of the Members with such powers as the court making such appointment shall confer. Each Member consents and agrees, and will if requested by the Master Trustee, consent and agree at the time of application by the Master Trustee for

appointment of a receiver, to the appointment of such receiver and agrees that such receiver may be given the right, power and authority, to the extent the same may lawfully be given, to take possession of and operate and deal with such Property and the revenues, profits and proceeds therefrom, with the same effect as the Member could, and to borrow money and issue evidences of indebtedness as such receiver.

Remedies Subject to Provisions of Law

All rights, remedies and powers described under this caption may be exercised only to the extent that the exercise thereof does not violate any applicable provision of law. All the provisions of the Master Indenture summarized under this caption are intended to be limited to the extent necessary so that they will not render any provisions of the Master Indenture invalid or unenforceable under the provisions of any applicable law.

Related Bond Trustee or Bondholders Deemed to be Obligation Holders

For the purposes of the Master Indenture, unless a Related Bond Trustee elects to the contrary or contrary provision is made in a Related Bond Indenture, each Related Bond Trustee shall be deemed the holder of the Obligation or Obligations pledged to secure the Related Bonds with respect to which such Related Bond Trustee is acting as trustee. If such a Related Bond Trustee so elects or the Related Bond Indenture so provides, the holders of each series of Related Bonds shall be deemed the holders of the Obligations to the extent of the principal amount of the Obligations to which their bonds relate.

Notice of Default

Within ten days after the Master Trustee has actual knowledge or has received written notice of the occurrence of an Event of Default, the Master Trustee shall mail to all Holders notice of such Event of Default, unless such Event of Default shall have been cured before the giving of such notice (the term "Event of Default" for the purposes of the Master Indenture summarized under this subcaption being defined to be the events specified in subparagraphs (a)-(f) under the subcaption "*Events of Default*" above, not including any periods of grace provided for in subparagraphs (b), (c) and (d) respectively, and irrespective of the giving of written notice specified in subparagraph (b)). Except in the case of default in the payment of the principal of or premium, if any, or interest on any of the Obligations and the Events of Default specified in subparagraphs (d) and (e) under the subcaption "*Events of Default*" above, the Master Trustee shall be protected in withholding such notice if and so long as the Master Trustee in good faith determines that the withholding of such notice is in the best interests of the Holders.

REMOVAL AND RESIGNATION OF THE MASTER TRUSTEE

The Master Trustee may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than a majority of the principal amount of Obligations then Outstanding or, unless an Event of Default has occurred and is then continuing, the Obligated Group Representative.

The Master Trustee may at any time resign by giving written notice of such resignation to the Obligated Group Representative and by giving the Holders of all Obligations then Outstanding notice of such resignation by mail at the addresses shown on the registration books maintained by the Master Trustee.

No such resignation or removal shall become effective unless and until a successor Master Trustee has been appointed and has assumed the trusts created by the Master Indenture. Written notice of removal shall be given to the Members and to each Holder at the address then reflected on the books of the Master Trustee. A successor Master Trustee may be appointed at the direction of the Holders of not

less than a majority in aggregate principal amount of Obligations Outstanding, or, if the Master Trustee has resigned or has been removed by the Obligated Group Representative, by the Obligated Group Representative. If a successor Master Trustee has not been appointed and qualified within 60 days of the date notice of resignation is given, the Master Trustee, any Member or any Holder may apply to any court of competent jurisdiction for the appointment of an interim successor Master Trustee to act until such time as a permanent successor is appointed.

Unless otherwise ordered by a court or regulatory body having competent jurisdiction, or unless required by law, any successor Master Trustee shall be a trust company or bank having the powers of a trust company as to trusts, qualified to do and doing trust business in one or more states of the United States of America and having an officially reported combined capital, surplus, undivided profits and reserves (or if the Master Trustee is a subsidiary of such financial institution, the parent institution shall satisfy these requirements) aggregating at least \$50,000,000, if there is such an institution willing, qualified and able to accept the trust upon reasonable or customary terms.

Every successor Master Trustee howsoever appointed under the Master Indenture shall execute, acknowledge and deliver to its predecessor and also to each Member an instrument in writing, accepting such appointment. Upon the delivery of such acceptance, such successor Master Trustee shall, without further action, become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor. The predecessor Master Trustee shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor Master Trustee. The predecessor Master Trustee shall execute any and all documents necessary or appropriate to convey all interest it may have to the successor Master Trustee. The predecessor Master Trustee shall promptly deliver all records relating to the trust or copies thereof and communicate all material information it may have obtained concerning the trust to the successor Master Trustee.

Each successor Master Trustee, not later than 10 days after its assumption of the duties under the Master Indenture, shall mail a notice of such assumption to each Holder.

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 in the Master Indenture, or to make any other provisions with respect to matters or questions arising under the Master Indenture and which shall 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 and summarized under the caption “CONSOLIDATION, MERGER, SALE OR CONVEYANCE” above; or

(g) To add a new Member as described under the caption “MEMBERSHIP IN THE OBLIGATED GROUP” above, or have a Member withdraw as described under the caption “WITHDRAWAL FROM THE OBLIGATED GROUP” above.

Supplements Requiring Consent of Holders

Other than Related Supplements described in the preceding paragraph and subject to the terms and provisions and limitations described under this caption, the Holders of not less a majority in aggregate principal amount of the Outstanding Obligations shall have the right to consent to and approve the execution by the Obligated Group Representative, acting for itself and as agent for each Member, and the Master Trustee of such Related Supplements as shall 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. Nothing described under this subcaption shall permit or be construed as permitting a Related Supplement which would:

(a) 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;

(b) modify, alter, amend, add to or rescind any of the terms or provisions described under this caption 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

(c) 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.

The Master Trustee may execute a Related Supplement (in substantially the form delivered to it as described below) without liability or responsibility to any Holder (whether or not such Holder has consented to the execution of such Related Supplement) if the Master Trustee receives:

(a) a Request of the Obligated Group Representative to enter into such Related Supplement;

(b) a certified copy of the resolution of the Governing Body of the Obligated Group Representative approving the execution of such Related Supplement;

(c) the proposed Related Supplement; and

(d) an instrument or instruments executed by the Holders of not less than the aggregate principal amount or number of Obligations described in the first paragraph under this caption for the Related Supplement in question which instrument or instruments shall refer to the

proposed Related Supplement and shall specifically consent to and approve the execution thereof in substantially the form of the copy thereof as on file with the Master Trustee.

Any such consent shall be binding upon the Holder of the Obligation giving such consent and upon any subsequent Holder of such Obligation and of any Obligation issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Obligation giving such consent or by a subsequent Holder thereof by filing with the Master Trustee, prior to the execution by the Master Trustee of such Related Supplement, such revocation and, if such Obligation or Obligations are transferable by delivery, proof that such Obligations are held by the signer of such revocation. At any time after the Holders of the required principal amount or number of Obligations shall have filed their consents to the Related Supplement, the Master Trustee shall make and file with the Corporation a written statement to that effect. Such written statement shall be conclusive that such consents have been so filed.

If the Holders of the required principal amount or number of the Outstanding Obligations shall have consented to and approved the execution of such Related Supplement, no Holder of any Obligation shall have any right to object to the execution thereof, or to object to any of the terms and provisions contained therein or the operation thereof, or to question the propriety of the execution thereof, or to enjoin or restrain the Master Trustee or the Obligated Group Representative from executing the same or from taking any action pursuant to the provisions thereof.

SATISFACTION AND DISCHARGE OF MASTER INDENTURE.

If (1) the Members shall deliver to the Master Trustee for cancellation all Obligations previously authenticated (other than any Obligations which shall have been mutilated, destroyed, lost or stolen and which shall have been replaced or paid as provided in any Related Supplement) and not cancelled, or (2) upon payment of all Obligations not previously cancelled or delivered to the Master Trustee for cancellation, or (3) the Members shall 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 cash or Escrow Obligations or both, sufficient to pay at maturity or upon redemption all Obligations not previously cancelled or delivered to the Master Trustee for cancellation, including without limitation principal and interest due or to become due to such date of maturity or redemption date, as the case may be, and if in any case the Members shall also pay or cause to be paid all other sums payable under the Master Indenture by the Members, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Members and at the cost and expense of the Members, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture. The Members shall cause a report to be prepared by a firm nationally recognized for providing verification services regarding the sufficiency of funds for such discharge and satisfaction, upon which report the Master Trustee may rely.

SUMMARY OF CERTAIN PROVISIONS OF THE DEEDS OF TRUST

The following information summarizes certain provisions of the five Deeds of Trust, as amended. All five Deeds of Trust contain substantially similar provisions and therefore have been summarized together. Reference is made to the Deeds of Trust for a full and complete statement of their provisions.

GRANT IN TRUST

The Trustor irrevocably grants, transfers and absolutely, unconditionally, and irrevocably assigns to the Trustee, in trust, with power of sale and right of entry and possession, the entire right, title and interest of Trustor in and to that certain real property more particularly described in the Deeds of Trust

("Land"), all right, title and interest that the Trustor otherwise has or acquires in the Land, together with all right, title and interest that the Trustor has or acquires in:

(a) All buildings, structures, improvements, fixtures, equipment and appurtenances owned, constructed, located, erected, installed or affixed by or on behalf of the Trustor upon or appurtenant to the Land and all replacements and substitutions therefor ("Facilities");

(b) All appurtenances, improvements, easements, pipes, transmission lines or wires and other rights used in connection with the Land or as a means of access thereto, owned or constructed or placed upon or in the Land or Facilities ("Appurtenances");

(c) All machinery, equipment, goods and other personal property of the Trustor, whether moveable or not, if the same is (a) located at or used in connection with the Facilities or Appurtenances or (b) financed with the proceeds of Obligations (as defined in the Master Indenture) and all improvements, restorations, replacements, repairs, additions, accessions or substitutions thereto or therefor, including, without limitation, all machinery, equipment, material, furnishings and appliances for generation or distribution of air, water, heat, electricity, light, fuel or refrigeration, for purposes of ventilation, sanitation or drainage, for exclusion of vermin or insects, for removal or disposal of dust, refuse or garbage; all elevators, awnings, window coverings, floor covering, cabinets; all fixed equipment installed in the Land or Facilities which are essential elements of the Facilities and are necessary for their operation and use; the products and proceeds from any and all such property; all the estate, interest, right, title, property or other claim or demand of every nature whatsoever, in and to such property, including specifically, but without limitation, all deposits made with or other security given to utility companies by the Trustor with respect to such property and claims or demands relating to insurance or condemnation awards which the Trustor has or acquires ("Equipment");

(d) To the extent assignable, all leases, subleases, management agreements, development agreements, construction contracts and architectural agreements with respect to the Land, Facilities, Appurtenances and Equipment ("Leases");

(e) All rentals or other payments which may accrue or otherwise become payable under the Leases to or for the benefit of the Trustor together with all other income, rents, revenues, issues, profits, reserves, and royalties produced by the Land, Facilities, Appurtenances and Equipment or by all management or service contracts or other contracts affecting the Mortgaged Estate (as defined below), including but not limited to security deposits (collectively the "Rents");

(f) All claims, earnings, products, damages, indemnifications, insurance proceeds and any other proceeds from any and all of such Land, Facilities, Appurtenances, Equipment, Leases and Rents including specifically, but without limitation, all deposits made with or other security given to utility companies and claims or demands relating to insurance (whether or not such insurance is required by Beneficiary) or condemnation awards which the Trustor has or acquires, including all advance payments of insurance premiums made by the Trustor with respect thereto ("Proceeds");

(g) All accounts, accounts receivable and other rights to payment of money or other value owned or acquired by the Trustor, whether due or to become due and whether or not earned by performance ("Accounts"), including without limitation the following:

(i) Any and all Accounts arising from any source, including without limitation operations of the Trustor or its agents at the Facilities, and at any other facility or office; and

(ii) Any and all Accounts accruing from inpatient, outpatient, day treatment, or any other programs run by and operations of the Trustor or its agents.

(h) For purposes hereof, "Accounts" covered by the Deeds of Trust shall include without limitation accounts, chattel paper, deposit accounts and instruments as defined by the California Uniform Commercial Code, and any amounts receivable from third-party payors (including insurance companies, Medicare and Medicaid, unless otherwise prohibited by law) in connection with the foregoing;

(i) All right, title and interest of the Trustor in all the Trustor's raw materials, work in process, finished goods and goods held for sale or furnished under contracts of service, and all returned and repossessed goods, and all goods covered by documents of title, including warehouse receipts, bills of lading and all other documents of every type covering all or any part of the Mortgaged Estate, owned or acquired, whether held by the Trustor or any third party, which is located on, appurtenant to, relating to, or used by or useful in connection with the Mortgaged Estate ("Inventory"); and

(j) All right, title and interest of the Trustor in and to all plans, specifications contracts (including without limitation the architect's contract and the construction contract for the Facilities to be built on the Land), permits, approvals, licenses, entitlements, rights to develop (including without limitation any and all subdivision approvals, whether preliminary or definitive), site plan approvals, equipment leases, service contracts and agreements, of whatever nature or type, which now or may in the future pertain to, relate to, affect or be used in connection with, the Facilities, including without limitation any of the foregoing necessary or convenient to the completion, operation, maintenance and management of the Facilities (hereinafter collectively referred to as the "Approvals");

(k) All general intangibles of the Trustor ("Intangibles"); and

(l) All proceeds of any of the foregoing.

All of the above referenced Land, Facilities, Appurtenances, Equipment, Leases, Rents, Proceeds, Gross Revenues, Accounts, Inventory, Approvals and Intangibles and the proceeds thereof, as conveyed by the Deeds of Trust to the Trustee or made subject to the security interest described in the Deeds of Trust is collectively referred to as the "Mortgaged Estate."

The Trustor warrants and agrees that as of the date of recording of the Deeds of Trust it is not currently bound by any sales agreement, option, assignment, sublease, pledge, mortgage, deed of trust, financing statement, security agreement or any other arrangement regarding the Mortgaged Estate apart from the transactions referenced in or secured by the Deeds of Trust and has not nor will execute any document or instrument referring to or covering the Mortgaged Estate, or any part thereof, and no such documents or instruments are on file, recorded or in effect in any public office, other than Permitted Encumbrances (as that term is defined in the Master Indenture), and agrees that the Mortgaged Estate is, and shall be, kept free from any lien, security interest, encumbrance or any other interest other than Permitted Encumbrances, with the exception of any lien for taxes or assessments which are not past due.

SECURED OBLIGATIONS

The grants described under the preceding caption are made for the purpose of securing the:

- (a) Payment to the Beneficiary of all amounts due with respect to Obligations issued and outstanding pursuant to the Master Indenture, including, without limitation, repayment of up to \$400,000,000 or so much thereof as Outstanding, together with interest thereon as specified in the Master Indenture;
- (b) Performance and observance of each and every condition, obligation, covenant, promise and agreement of Trustor contained in the Master Indenture; and
- (c) Payment and performance of each and every obligation, covenant and agreement arising under or contained in the Deeds of Trust.

The foregoing obligations are sometimes referred to as the "Secured Obligations."

PLEDGE OF REVENUES AND PERSONAL PROPERTY: SECURITY AGREEMENT AND FIXTURE FILING

The Deeds of Trust shall also constitute a security agreement and the Trustor pledges and grants to the Beneficiary a security interest in and to all of the Mortgaged Estate not constituting real property under the laws of the State of California (including without limitation, all fixtures, "Personal Property"), whether Trustor obtains an interest in such Personal Property and all the proceeds or products thereof.

Upon an Event of Default (as defined in the Master Indenture) having occurred and which is continuing under the Master Indenture, the Beneficiary shall be entitled to exercise with respect to all such collateral all of the rights and remedies set forth in the Deeds of Trust, in the Master Indenture or otherwise afforded to a secured party in default under the terms of Article 9 of the California Uniform Commercial Code or otherwise in accordance with applicable law, any or all of which may be pursued and exercised concurrently, consecutively, alternatively or otherwise without waiving such Event of Default. The Trustor will execute one or more supplemental security agreements as the Beneficiary may from time to time request, covering any property constituting a portion of the Mortgaged Estate and otherwise the collateral securing the Secured Obligations and provide other and further assurances as the Beneficiary may request to perfect or evidence the security interest created in the Deeds of Trust (which shall cover all proceeds and products of collateral).

The Trustor will pay all costs of filing any financing, continuation or termination statements with respect to the security interest created by the Deeds of Trust; and the Beneficiary is appointed the Trustor's attorney-in-fact to do, at the Beneficiary's option and at the Trustor's expense, all acts and things which the Beneficiary may deem necessary to perfect and continue perfected the security interest created by the Deeds of Trust. The Beneficiary may execute, sign, endorse, transfer or deliver, in the name of the Trustor, notes, checks, drafts or other instruments for the payment of money and receipts, certificates of origin, certificates of title, applications for certificates of title, or any other documents necessary to evidence, perfect or as permitted under the Deeds of Trust realize upon the security interests and secured indebtedness created or secured by the Deeds of Trust. This authority shall be considered a power coupled with an interest and shall be irrevocable until all of the Secured Obligations shall have been paid in full.

The Deeds of Trust also shall constitute a Uniform Commercial Code financing statement filed as a fixture filing ("Fixture Filing") for all Personal Property so affixed by or on behalf of the Trustor to the Land so that such Personal Property becomes a fixture.

RESIDENCE AGREEMENTS

Residence Agreements to which the Trustor is a party (“Residence Agreements”) shall be subject to the terms and conditions of the Deeds of Trust to the extent that such Residence Agreements are deemed to constitute interests in real property under applicable law; provided, however, that notwithstanding anything contained in the Deeds of Trust to the contrary, it is acknowledged by the Trustee and the Beneficiary that any lien with respect to the Residence Agreements and the enforcement thereof by way of any subsequent assignment, transfer, foreclosure, or any other means, is subject to all applicable provisions of all constitutions, statutes, ordinances, rules, regulations and all binding orders, judgments and decrees of any government or political subdivision or any agency, authority, bureau, commission, department or instrumentality of either, or any court, tribunal or arbitrator, in each case whether foreign or domestic.

ACCELERATION UPON DEFAULT

Upon an Event of Default (as defined in the Master Indenture) having occurred and which is continuing under the Master Indenture, the Beneficiary shall have the option of declaring the unpaid balance owing under the Master Indenture and any other sums secured hereby immediately due and payable as provided in the Master Indenture.

COVENANTS OF THE TRUSTOR

For the purpose of protecting and preserving the security of the Deeds of Trust, the Trustor promises and agrees to do the following:

- (a) to take all action necessary to keep the Mortgaged Estate in good condition and at all times entirely free of dry rot, fungus, termites, beetles and all other wood-boring, wood-eating, harmful or destructive insects, and in all respects properly to care for and keep all of the Mortgaged Estate, including all such buildings, structures and other improvements, in good condition and repair;
- (b) not to remove, demolish or substantially alter (except such alterations as may be required by laws, ordinances or regulations) any of the Facilities; provided, however, that the Trustor may make such proper replacements, repairs, renewals, removals and alterations as it shall in good faith reasonably determine are necessary or advisable to maintain or enhance the efficiency and value of the security created by the Deeds of Trust;
- (c) to complete promptly and in good, businesslike, and workmanlike manner any building or other improvements which may be constructed on the Land, in compliance with all applicable laws and permits, and on a lien-free basis, and in accordance with the standard which is appropriate for structures of similar construction and class, to promptly restore in like manner (to the extent permitted by law) any Facilities which may be damaged or destroyed thereon, and to pay when due all claims for labor performed and materials furnished therefor, provided that the Trustor shall not be required to pay any such claim if it shall in good faith contest the validity thereof and, if so contested, shall provide for the payment thereof in a manner reasonably satisfactory to the Beneficiary, provided that the validity of any claim may be contested only if (i) no lien or encumbrance will attach to the Mortgaged Estate, or any such lien or encumbrance is bonded over in form acceptable to the Beneficiary (ii) no civil or criminal liability will arise as a result of the non-payment thereof (iii) there will be no harm to the lien of the Deeds of Trust or the interest of the Trustee and the Beneficiary under the Deeds of Trust, (iv) such proceeding shall be permitted under and be conducted in accordance with the provisions of any other

instrument to which Trustor is subject and shall not constitute a default thereunder and such proceeding shall be conducted in accordance with all applicable statutes, laws and ordinances; and (v) such contest will not, in Beneficiary's judgment, have a material adverse effect on Trustor.

(d) to comply with all laws, ordinances, regulations, conditions and restrictions affecting the Mortgaged Estate or any part thereof or requiring any alterations or improvements to be made thereon;

(e) not to commit or permit any waste, and not to permit any deterioration, of the Mortgaged Estate other than normal wear and tear;

(f) not to commit, suffer or permit any act to be done in or upon the Mortgaged Estate in violation of any law or ordinance if such act might have consequences that would materially and adversely affect the financial condition, assets, properties or operation of the Trustor;

(g) to provide and maintain hazard and other insurance as required by the Master Indenture;

(h) to appear in, defend and indemnify and hold harmless the Trustee and the Beneficiary from and against any action or proceeding affecting or purporting to affect the security of the Deeds of Trust, any additional or other security for any of the obligations secured by the Deeds of Trust, or the interest, rights, powers, or duties of the Trustee or the Beneficiary under the Deeds of Trust, it being agreed, however, that in the case of an action or proceeding against the Trustee or the Beneficiary, said Trustee or Beneficiary, at its option, may appear in and defend any such action or proceeding and, in addition, it being agreed that the Trustee or Beneficiary may commence any action or proceeding deemed necessary by it to perfect, maintain or protect such interest, rights, powers or duties, all in such manner and to such extent as it may determine in its sole discretion to be appropriate, and the Trustee or Beneficiary is authorized to pay, purchase or compromise on behalf of the Trustor any encumbrance or claim which in its judgment appears or purports to affect the security of the Deeds of Trust or to be superior to the Deeds of Trust; to pay all costs and expenses, including costs of evidence of title and attorney's fees in a reasonable sum, in any above described action or proceedings in which the Beneficiary or the Trustee may appear;

(i) to pay, and upon request of Beneficiary submit to the Beneficiary at least five (5) days before default or delinquency, a receipt or other evidence of payment, or certified copy thereof, evidencing payment of all taxes, assessments and all other impositions of whatever nature affecting the Mortgaged Estate, and any accrued interest, cost or penalty thereon, provided that the Trustor shall not be required to pay any such tax or assessment if it shall in good faith contest the validity thereof and, if so contested, shall provide for the payment thereof, including any accrued interest, costs or penalties thereon in a manner reasonably satisfactory to the Beneficiary, provided that the validity of any tax, assessment or imposition and the foreclosure or enforcement of any lien that may attach as a result thereof may be contested only if (i) no civil or criminal liability will arise from the nonpayment thereof (ii) there will be no harm to the lien of the Deeds of Trust or the interest of the Trustee and the Beneficiary under the Deeds of Trust and (iii) such contest shall be permitted under and be conducted in accordance with the provisions of any other instrument to which Trustor is subject and shall not constitute a default thereunder and such contest shall be conducted in accordance with all applicable statutes, laws and ordinances;

(j) to pay when due all encumbrances (including any debt secured by deed of trust), ground rents, liens or charges on the Mortgaged Estate or any part thereof which appear to be prior or superior to the Deeds of Trust, and to pay immediately and in full all such encumbrances, rents, liens or charges, if any, which may now be due or payable; provided that the Trustor shall not be required to pay any such encumbrances, rent, lien or charge if it shall in good faith contest the validity thereof and, if so contested, shall provide for the payment thereof in manner satisfactory to the Beneficiary; provided that such contest shall be permitted under and be conducted in accordance with the provisions of any other instrument to which Trustor is subject and shall not constitute a default thereunder and such contest shall be conducted in accordance with all applicable statutes, laws and ordinances. For purposes of clarification, to the extent any lien, charge or encumbrance falls both within the provisions of the Deeds of Trust summarized under this subparagraph (j) (or any other subparagraph under this caption or under the caption "ADDITIONAL COVENANTS OF THE TRUSTOR" below) and also subparagraph (j) under the caption "ADDITIONAL COVENANTS OF THE TRUSTOR" below, subparagraph (j) under the caption "ADDITIONAL COVENANTS OF THE TRUSTOR" below shall govern with respect thereto; and

(k) to pay when due all costs, fees and expenses of these trusts, including costs of evidence of title and the Trustee's fees in connection with sale, whether completed or not, which amounts shall become due upon delivery to the Trustee of declaration of default and demand for sale, as provided in the Deeds of Trust.

ADDITIONAL COVENANTS OF THE TRUSTOR

(a) Payment under the Master Indenture. The Trustor shall pay to the Beneficiary the principal, and premium, if any, of and the interest on the entire unpaid principal indebtedness represented by the Master Indenture and the other amounts required to be paid pursuant thereto, including all sums due the Beneficiary under the terms of the Deeds of Trust and the Master Indenture, together with all interest thereon, punctually as and when the same shall become due by the terms of the Master Indenture and the Deeds of Trust, time being of the essence.

(b) Observance and Performance. The Trustor will observe and perform all of the terms, provisions, conditions, covenants and agreements on the part of the Trustor to be observed and performed under the Master Indenture.

(c) Title of Trustor. The Trustor warrants and covenants that it has good and marketable fee simple title in the Land and good and marketable title to the remainder of the Mortgaged Estate; and it is lawfully authorized to mortgage and encumber the Mortgaged Estate and that it has not created and will not create any liens or encumbrances on the Mortgaged Estate other than the Deeds of Trust and the Permitted Encumbrances. The Trustor covenants to warrant and defend the title to the Mortgaged Estate unto the Trustee and the Beneficiary against all persons and all claims of every kind or nature other than the Permitted Encumbrances.

(d) Repairs and Maintenance. Throughout the term of the Deeds of Trust, the Trustor, at its sole cost and expense, will take good care of the Mortgaged Estate and the sidewalks, curbs and vaults, if any, adjoining the Mortgaged Estate and will keep the same in good order and condition, and make all necessary repairs thereto, interior and exterior, structural and non-structural, ordinary and extraordinary, and unforeseen and foreseen. All repairs made by the Trustor shall be at least equal in quality and class to the original work. The necessity for and adequacy of repairs to the buildings and improvements pursuant to the Deeds of Trust shall be measured by the standard which is appropriate for structures of similar construction and class, provided that the Trustor shall in any event make all repairs necessary to avoid any structural damage or injury to the buildings and improvements to keep the buildings and improvements in

a proper condition for their intended uses. All proceeds of condemnation or insurance shall be applied pursuant to the Master Indenture.

(e) No Transfer of Mortgaged Estate. Unless the Beneficiary shall have consented in writing, the Trustor shall not by deed, mortgage, pledge, lease, easement or other instrument, grant, mortgage, pledge, lease, convey, assign, devise or otherwise transfer all or any part of the Mortgaged Estate or any interest therein, directly or indirectly, other than a lease, conveyance, assignment or transfer permitted under the terms of the Master Indenture, nor shall the Trustor suffer or permit the same by execution sale or operation of law or otherwise.

(f) No Set-Offs. The Trustor represents to the Beneficiary that it has no knowledge of any set-offs, recoupments, counterclaims or defenses to the principal indebtedness secured by the Deeds of Trust, or to any part thereof, or the interest thereon, either at law or in equity. The Trustor, within fifteen (15) days after written request by the Beneficiary, will furnish a duly acknowledged written statement in form satisfactory to the Beneficiary stating either that the Trustor knows of no set-offs, recoupments or defenses existing against the Secured Obligations or the Master Indenture or, if such set-offs, recoupments, counterclaims or defenses are alleged to exist, the nature and extent thereof.

(g) Change in Tax Status. In the event of the passage after the date of the Deeds of Trust of any law of the State of California, or any other governmental entity, changing in any way the laws now in force for the taxation of mortgages, deeds of trust or debts secured thereby, for state or local purposes, or the manner of the operation of any such taxes, so as to affect the interest of the Trustee or the Beneficiary, then and in such event, the Trustor shall bear and pay the full amount of such taxes, provided that if for any reason payment by the Trustor of any such new or additional taxes would be unlawful or if the payment thereof would constitute usury or render the loan or indebtedness secured by the Deeds of Trust wholly or partially usurious under any of the terms or provisions of the Master Indenture, or the Deeds of Trust, or otherwise, the Trustee or the Beneficiary may, at its option, declare the whole sum secured by the Deeds of Trust, with interest thereon, to be due and payable sixty (60) days after notice thereof, or the Trustee or the Beneficiary may, at its option, pay that amount or portion of such taxes as renders the loan or indebtedness secured by the Deeds of Trust unlawful or usurious, in which event the Trustor shall concurrently therewith pay the remaining lawful and nonusurious portion or balance of said taxes.

(h) Further Action By Trustor. The Trustor shall at its expense promptly upon request of the Beneficiary do all acts and things, including but not limited to the execution of any further assurances deemed necessary by the Beneficiary to establish, confirm, maintain and continue the lien created and intended to be created by the Deeds of Trust, all assignments made or intended to be made pursuant to the Deeds of Trust and all other rights and benefits conferred or intended to be conferred on the Beneficiary by the Deeds of Trust, and the Trustor shall pay all costs incurred by the Beneficiary and the Trustee in connection therewith, including all filing and recording costs, costs of searches, and reasonable attorneys' fees incurred by the Beneficiary and the Trustee.

(i) Protection of Mortgage Lien. Subject to the right to contest in good faith in the same manner as described in subparagraph (c) under the caption "COVENANTS OF THE TRUSTOR" above, the Trustor will promptly perform and observe, or cause to be performed and observed, all of the terms, covenants and conditions of all instruments of record affecting the Mortgaged Estate, non-compliance with which may affect the security of the Deeds of Trust, or which may impose any duty or obligation upon the Trustor or any sublessee or other occupant of the Mortgaged Estate or any part thereof, noncompliance with which may affect the security of the Deeds of Trust, and the Trustor shall do or cause to be done all things necessary to preserve intact and unimpaired any and all easements, appurtenances and other interests and rights in favor of or constituting any portion of the Mortgaged Estate.

(j) Payment of Liens. Subject to the right to contest in good faith in the manner as described in subparagraph (c) under the caption "COVENANTS OF THE TRUSTOR" above, the Trustor shall pay, when the same shall become due and payable, all lawful claims and demands of mechanics, materialmen, laborers and others which, if unpaid, might result in or permit the creation of a lien on the Mortgaged Estate or any part thereof. If the Trustor shall fail to make the payments required by the previous sentence, the Beneficiary may at its option, but shall be under no obligation to do so, pay such claims and demands and the Trustor will repay to the Beneficiary on demand any amount so paid by the Beneficiary, with interest therein as set forth in the Master Indenture, and the same shall be secured by the Deeds of Trust.

ENTRY, POSSESSION, OPERATION OF MORTGAGED ESTATE

Upon an Event of Default (as defined in the Master Indenture) having occurred and which is continuing under the Master Indenture, then the Trustee or the Beneficiary, in its sole discretion, without notice to or demand upon the Trustor and without releasing the Trustor from any obligation of the Deeds of Trust, is authorized to do and may do any of the following:

(i) make any such payment or do any such act in such manner and to such extent as it may deem, acting reasonably, necessary to protect the security of the Deeds of Trust, the Trustee and the Beneficiary being authorized to enter upon the Mortgaged Estate for such purposes;

(ii) pay, purchase, contest or compromise any claim, debt, lien, charge or encumbrance which in the judgment of the Trustee or the Beneficiary is likely to affect or appear to affect the security of the Deeds of Trust, the interest of the Beneficiary or the rights, powers or duties of the Trustee or the Beneficiary under the Deeds of Trust; or

(iii) either by itself or by its agents appointed by it for that purpose, enter into and upon and take and hold possession of any or all of the Mortgaged Estate, exclude the Trustor and all other persons therefrom, and operate, construct and manage the Mortgaged Estate, and rent and lease the same and collect any and all Gross Revenues, Rents, issues, income and profits therefrom, and from time to time apply the same or accumulate the same for application, in such order and manner as the Trustee or the Beneficiary in its sole discretion shall consider advisable, to the following: costs of collecting the same, including the Trustee's reasonable fees in so doing; the necessary and proper costs of upkeep, maintenance, repair, and operation of the Mortgaged Estate; the repayment of any sums theretofore or thereafter advanced pursuant to the terms of the Deeds of Trust; the interest and principal then due on any Secured Obligations or coming due within ten (10) days of such application; and the taxes and assessments upon the Mortgaged Estate then due or coming due within ten (10) days of such application.

The collection or receipt of Gross Revenues or Rents from the Mortgaged Estate by the Trustee or the Beneficiary after declaration of default and election to cause the Mortgaged Estate to be sold under and pursuant to the terms of the Deeds of Trust shall not affect or impair such default or declaration of default or election to cause the Mortgaged Estate to be sold or any sale proceedings predicated thereon, but such proceedings may be conducted and sale effected notwithstanding the receipt or collection of any such Gross Revenues or Rents. Any such Gross Revenues or Rents in the possession of the Trustee or the Beneficiary at the time of sale and not theretofore applied as provided in the Deeds of Trust, shall be applied in the same manner and for the same purposes as the proceeds of the sale.

The Trustee and the Beneficiary shall not be under any obligation to make any of the payments or do any of the acts above mentioned or pay or perform any other obligation under the Deeds of Trust

which the Trustor has failed to pay or perform, but, upon election so to do, sums so spent shall be added to the Secured Obligations. In addition, employment of an attorney is authorized and payment of such reasonable attorney's fees and costs and all other necessary expenditures is also secured by the Deeds of Trust.

POWER OF SALE

Upon an Event of Default (as defined in the Master Indenture) having occurred and which is continuing under the Master Indenture, the Trustee, upon written request by the Beneficiary, shall declare all Secured Obligations immediately due and payable.

Having so declared, if requested by Beneficiary, the Trustee shall provide and record such notices of default and of the election to cause the Mortgaged Estate or any part of it to be sold as are required by law.

The Trustee, upon written request by the Beneficiary, from time to time before the Trustee's sale, may rescind any such notice of default and of election to cause to be sold the Mortgaged Estate and may execute a written notice of such a rescission, which notice, when recorded, shall also constitute a cancellation of any prior declaration of default and demand for sale. The exercise of such right of rescission shall not constitute a waiver of any breach or default then existing or subsequently occurring or impair the right of the Beneficiary to execute and deliver to the Trustee, as above provided, other requests for notices of default and of election to cause to be sold the Mortgaged Estate to satisfy the obligations of the Deeds of Trust, nor otherwise affect any provision, covenant or condition of the Deeds of Trust or any of the rights, obligations or remedies of the parties under the Deeds of Trust.

Not less than the time then required by law having elapsed after recordation of notice of default, without demand on the Trustor, the Trustee, having first given notice of sale as then required by law, shall sell the Mortgaged Estate in the manner provided by law at the time and place of sale fixed by it in the notice of sale, provided that the Trustee may postpone sale of all or any portion of the Mortgaged Estate in the manner provided by law. In case of any sale under the Deeds of Trust, the Mortgaged Estate (and Trustor's interests therein) may be sold in one parcel and as an entirety or in such parcels (or interests), manner or order as the Beneficiary in its sole discretion may elect.

The Trustee shall deliver to the purchaser its deed conveying the Mortgaged Estate so sold, but without any covenant or warranty, express or implied, and the recitals in such deed of any matters or facts affecting the regularity or validity of the sale shall be conclusive proof of the truthfulness thereof. Also, such deed shall be conclusive against all persons as to all matters or facts therein recited. Any person, including the Trustor, the Trustee and the Beneficiary, may purchase at such sale.

The Trustee shall apply the proceeds of any such sale to payment of: (1) all costs, fees, charges and expenses of the Trustee and of these trusts, and fees and costs of any attorneys employed by the Trustee or the Beneficiary pursuant to the provisions of the Deeds of Trust; (2) the Trustee's fees in connection with the sale, and all expenses of sale, including the cost of procuring evidence of title in connection with the sale proceedings and revenue stamps on the Trustee's deed, if any; and (3) all other sums secured hereby, including interest on each of the foregoing items, all in accordance with the Master Indenture. The remainder, if any, of such proceeds, shall be paid to the person or persons legally entitled thereto, upon proof satisfactory to the Trustee of such right.

In connection with any exercise by Trustee of its power of sale and conduct by the Trustee of a non-judicial foreclosure proceeding and sale, the Beneficiary and the Trustee shall have all of the rights, powers, privileges and immunities available under California law, including, but not limited to, rights and

options to postpone any noticed sale date, to enter a credit bid based upon obligations owed under, or secured by, the Deeds of Trust, and to be the buyer of all, or some portion of, or an interest in, the Mortgaged Estate at any such non-judicial foreclosure sale.

ADDITIONAL REMEDY PROVISIONS

Other Remedies. In addition to the rights and remedies set forth in or arising under the Deeds of Trust, upon an Event of Default (as defined in the Master Indenture) having occurred and which is continuing under the Master Indenture, the Trustee and the Beneficiary shall be entitled to exercise any and all other rights and remedies under the Master Indenture and at law or in equity.

Receivership. Subject to applicable law, the Beneficiary itself or acting through the Trustee shall be entitled to the appointment of a receiver without the necessity of proving either the inadequacy of the security or the insolvency of the Trustor or any other person who may be legally or equitably liable to pay moneys secured by the Deeds of Trust and the Trustor and each such person shall be deemed to have waived such proof and to have consented to the appointment of such receiver. The receiver shall have the power to use all materials on or near the Mortgaged Estate which are the property of the Trustor in the completion of the Facilities, and the Trustor agrees to pay the receiver all sums expended in good faith by the receiver in the management, operation or completion of the Facilities, and in addition thereto, the Trustor agrees to reimburse the receiver for the costs of services rendered by consultants, advisors, accountants, managers and others retained by the receiver in connection with said completion and operation. The foregoing shall be deemed to authorize, but not obligate, the receiver to do all such things in connection with the management and operation of the Facilities and completion of the construction as it, in its sole discretion, upon the direction of the Beneficiary, deems advisable, including without limitation the right to make any payments with respect to any obligation of the Trustor or any other person in connection with the construction to be performed under the Deeds of Trust, to make additions and changes in the plans and specifications, to employ contractors, subcontractors and agents, to pay, settle or compromise existing bills and claims which are or may be liens against the Mortgaged Estate or may be necessary or desirable for the completion of the Facilities or the clearance of title, to purchase and maintain insurance, including title insurance, and to take any and all such action, either in its own name or in the name of the Trustor, to lease or license the Mortgaged Estate to others, in whole or in part, subject to the Master Indenture; and the Trustor by the Deeds of Trust appoints the receiver and its agents its irrevocable attorney-in-fact, coupled with an interest, with full power of substitution, to act in its name in connection with the foregoing. Said attorney-in-fact shall also have power to prosecute and defend all actions or proceedings in connection with the construction of the Facilities and to take such action and require such performance as is deemed necessary. In the event that the receiver takes possession of the Mortgaged Estate and assumes control of such construction as aforesaid, it shall not be obligated to continue such construction longer than the receiver or the Beneficiary shall see fit and may and shall, upon the direction of the Beneficiary, in its sole discretion, thereafter at any time abandon such construction and refuse to make further payments for the account of the Trustor, whether or not the Facilities have been completed. The receiver may also, and shall, upon the direction of the Beneficiary, demolish any improvements which have been constructed as part of the Facilities on the Mortgaged Estate, either in whole or in part.

Remedies Cumulative. Each right and remedy of the Beneficiary and/or the Trustee provided for in the Deeds of Trust shall be cumulative and shall be in addition to every other right or remedy provided for in the Deeds of Trust or the Master Indenture or existing at law, or in equity or by statute or otherwise,

Advances by Trustee or the Beneficiary. Nothing contained in the Deeds of Trust or in the Master Indenture shall be deemed to give the Trustor any cause of action against the Beneficiary or the

Trustee for failure to cure or perform any obligation of the Trustor under the Deeds of Trust or in the Master Indenture.

No Waiver Implied. Any failure, forbearance or delay by the Trustee or the Beneficiary in insisting upon the strict performance by the Trustor of any of the terms, covenants, agreements, conditions and provisions of the Deeds of Trust shall not be deemed to be a waiver of any of the terms, covenants, agreements, conditions and provisions of the Deeds of Trust, and the Trustee and the Beneficiary notwithstanding any such failure, forbearance or delay, shall have the right thereafter to insist upon the strict performance by the Trustor of any and all of the terms, covenants, agreements, conditions, and provisions of the Deeds of Trust to be performed by the Trustor. Neither the Trustor, nor any other person obligated for the payment of the whole or any part of the sums secured by the Deeds of Trust shall be relieved of such obligation by reason of the failure of the Trustee or the Beneficiary to comply with any request of the Trustor or of any other person so obligated to take action to foreclose the Deeds of Trust or otherwise enforce any of the provisions of the Deeds of Trust or of any obligations secured by the Deeds of Trust, or by reason of the release, regardless of consideration, of the whole or any part of the security held for the indebtedness secured by the Deeds of Trust, or by reason of any agreement or stipulation between any subsequent owner or owners of the Mortgaged Estate and the Trustee or the Beneficiary extending the time of payment or modifying the terms of the Master Indenture or the Deeds of Trust without first having obtained the consent of the Trustor or such other person, and in the latter event, the Trustor and all such other persons shall continue to be liable to make such payments according to the terms of any such agreement or extension or modification unless expressly released and discharged in writing by the Beneficiary. Regardless of consideration, and without the necessity for any notice to or consent by the holder of any subordinate lien on the Mortgaged Estate, the Beneficiary may release the obligation of anyone at any time liable for any of the Secured Obligations or any part of the security held for the indebtedness and may extend the time for payment or otherwise grant indulgences, modify the terms of the Master Indenture or the Deeds of Trust, or both, without, as to the security or the remainder thereof, in any way impairing or affecting the lien of the Deeds of Trust or the priority of such lien, as security for the payment of the indebtedness as it may be so extended or modified, over any subordinate lien. For the payment of the Secured Obligations, the Trustee and the Beneficiary may resort to any other security therefor held by the Trustee or the Beneficiary in such order and manner as the Beneficiary may elect.

SATISFACTION AND RECONVEYANCE

In accordance with the terms of the Master Indenture and upon written request of the Beneficiary and payment of all fees owing the Trustee, the Trustee shall reconvey and release, without warranty, the Mortgaged Estate, it being further agreed that the recitals in such reconveyance and release of any matters or facts shall be conclusive proof of the truthfulness thereof and that the grantee in any reconveyance may be described as “the person or persons legally entitled thereto.”

AMENDMENTS

The Deeds of Trust may be amended, changed, modified or terminated at any time by the written consent of the Beneficiary and the Trustor.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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October __, 2011

ABAG Finance Authority for Nonprofit
Corporations
Oakland, California

U.S. Bank National Association,
as bond trustee
Portland, Oregon

B.C. Ziegler and Company
Chicago, Illinois

Re: \$62,200,000 ABAG Finance Authority for Nonprofit Corporations
Revenue Refunding Bonds, Series 2011
(Episcopal Senior Communities)

Ladies and Gentlemen:

We have acted as bond counsel to Episcopal Senior Communities, a nonprofit public benefit corporation incorporated under the laws of the State of California (the "Corporation"), in connection with the issuance by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") of \$62,200,000 in aggregate principal amount of its Revenue Refunding Bonds, Series 2011 (Episcopal Senior Communities) initially dated the date hereof (the "Bonds"). The Bonds are issued under the provisions of the Joint Powers Act, comprising Articles 1, 2, 3 and 4 of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California, as amended, and under and pursuant to that certain Bond Trust Indenture dated as of October 1, 2011 (the "Bond Indenture") between the Authority and U.S. Bank National Association, as bond trustee (the "Bond Trustee").

The proceeds from the sale of the Bonds will be loaned by the Authority to the Corporation under that certain Loan Agreement dated as of October 1, 2011 (the "Loan Agreement") between the Authority and the Corporation. Such loan will be evidenced by Direct Note Obligation No. 3 dated the date hereof ("Obligation No. 3") of the Obligated Group issued pursuant to the Master Trust Indenture dated as of October 1, 2011, as supplemented and amended (the "Master Indenture"), among the Corporation, the other members of an obligated group created therein (together with the Corporation, the "Members of the Obligated Group") and U.S. Bank National Association, as master trustee. Pursuant to the terms of the Loan Agreement and Obligation No. 3, the Corporation is obligated to make payments sufficient to pay the principal of, premium, if any, and interest on the Bonds. Pursuant to the terms of the Master Indenture, the Corporation and any future Members of the Obligated Group agree to be jointly and severally liable on all obligations issued under the Master Indenture, including Obligation No. 3.

The proceeds from the sale of the Bonds will be used, together with certain other moneys, to (i) prepay the ABAG Finance Authority for Nonprofit Corporations Refunding Revenue Certificates of Participation (Episcopal Homes Foundation), Series 1998 (the "Certificates of Participation") evidencing direct, undivided fractional interests of the owners thereof in purchase payments to be made by the Authority from installment payments received from the Corporation, currently outstanding in the aggregate principal amount of \$54,415,000, (ii) finance the acquisition, construction, expansion, remodeling, renovation, furnishing and equipping of facilities owned and operated in California by the Corporation, and (iii) pay certain costs associated with the issuance of the Bonds and the prepayment of the Certificates of Participation.

The Corporation has informed us that it is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “Code”), that it is exempt from federal income taxes under Section 501(a) and 501(c)(3) of the Code, and that it is not a “private foundation” as defined in Section 509(a) of the Code.

In our capacity as bond counsel, we have examined, among other things, certified proceedings of the members of the Authority authorizing, among other things, the execution and delivery of the Bond Indenture, the Loan Agreement, the Tax Exemption Agreement dated the date hereof among the Authority, the Corporation and the Bond Trustee, and the issuance of the Bonds, a specimen Bond, a certificate of the Bond Trustee regarding the authentication of the Bonds, executed counterparts of the above-referenced documents, the executed opinion of Sidley Austin LLP, San Francisco, California, counsel to the Authority, dated this date and such other documents, showings and related matters as we have deemed necessary in order to render this opinion.

Based upon the foregoing and in reliance upon certain documents and showings hereinafter referred to, we are of the opinion that:

1. The Bond Indenture has been duly authorized by the Authority, has been duly executed and delivered by authorized officers of the Authority and, assuming due authorization, execution and delivery thereof by the Bond Trustee, constitutes a valid and binding instrument of the Authority, enforceable against the Authority in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors’ rights and by the availability of equitable remedies.

2. The Bonds and the loan by the Authority to the Corporation of the proceeds from the sale thereof as evidenced by Obligation No. 3 and secured by the Loan Agreement have been duly authorized by the Authority, the Bonds have been duly executed by authorized officers of the Authority and have been validly issued by the Authority and, assuming due authentication thereof by the Bond Trustee, constitute the valid and binding limited obligations of the Authority payable solely from payments and prepayments received by the Authority upon Obligation No. 3 and from other amounts payable under the Loan Agreement and pledged under the Bond Indenture, and the Bonds are enforceable in accordance with their terms and are entitled to the benefit and security of the Bond Indenture, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors’ rights and by the availability of equitable remedies.

3. The Loan Agreement has been duly authorized by the Authority, has been executed and delivered by authorized officers of the Authority and, assuming due authorization, execution and delivery thereof by the Corporation, constitutes a valid and binding instrument of the Authority enforceable against the Authority in accordance with its terms, subject to the qualification that the enforcement thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors’ rights and by the availability of equitable remedies. In rendering the foregoing opinion, we have not attempted to verify the correctness of the assumptions made therein regarding the due authorization, execution and delivery of the Loan Agreement by the Corporation, including without limitation whether the Corporation has the power or authority to take such actions or whether such actions violate existing corporate articles of incorporation or bylaws, agreements or court decisions or are the subject of or may be affected by any litigation.

4. Interest on the Bonds will not, under present law, be includible in the gross income of the owners thereof for federal income tax purposes and will not be treated as an item of tax preference in computing the federal alternative minimum tax for individuals and corporations. Interest on the Bonds

will be taken into account, however, as an adjustment used in computing a corporation's alternative minimum taxable income for purposes of determining the federal alternative minimum tax imposed on certain corporations. The foregoing opinions assume compliance with certain covenants made by the Authority and the Corporation to satisfy pertinent requirements of the Code with respect to the Bonds. Failure to comply with certain of these covenants could cause interest on the Bonds to be included in gross income and be subject to federal income taxation retroactive to their date of issuance. Ownership of the Bonds may result in other federal tax consequences to certain taxpayers, including, without limitation, certain financial institutions, certain insurance companies, certain S corporations, individual recipients of Social Security or Railroad Retirement benefits, certain foreign corporations subject to the branch profits tax, and certain taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations. We express no opinion regarding any such collateral consequences arising with respect to the Bonds.

Under the laws of the State of California as presently enacted and construed, interest on the Bonds is exempt from the Personal Income Tax Law imposed by the State of California under Sections 17001 through 19802 of the California Revenue and Taxation Code. No opinion is expressed regarding taxation of interest on the Bonds under any other provisions of California law. Ownership of the Bonds may result in other California consequences to certain taxpayers, and no opinion is expressed regarding any such collateral consequences arising with respect to the Bonds.

In rendering this opinion, we have relied on the certificates of even date herewith of the Corporation with respect to certain material facts solely within the Corporation's knowledge relating to the property financed and refinanced with the proceeds of the Bonds and the application of the proceeds of the Bonds.

Respectfully submitted,

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SENIOR COMMUNITIES

