

**NEW ISSUE
BOOK-ENTRY ONLY**

See "RATINGS" herein

In the opinion of Holland & Knight LLP Bond Counsel, rendered in reliance on certain schedules referred to herein and assuming compliance with certain arbitrage rebate and other tax requirements referred to herein, under existing law, interest on the Series 2005 Bonds is excludable from gross income for federal income tax purposes and will not be treated as an item of tax preference in computing the federal alternative minimum tax. Interest on the Series 2005 Bonds will, however, be taken into account in computing an adjustment made in determining a corporate Series 2005 Bondholder's alternative minimum tax based on such Series 2005 Bondholder's adjusted current earnings. It is further the opinion of Bond Counsel that, under existing law, interest on the Series 2005 Bonds is exempt from present personal income taxes imposed by the State of California. For a description of the consequences to holders of the Series 2005 Bonds of other provisions of the Internal Revenue Code of 1986, as amended, see "TAX MATTERS" herein.

\$49,000,000

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS



**REVENUE REFUNDING BONDS, SERIES 2005
(ESKATON PROPERTIES, INCORPORATED)
AUCTION RATE SECURITIES**

Dated: Date of Delivery

Price: 100%

The Series 2005 Bonds will be issued in fully registered form without coupons and secured under the Bond Indenture described herein. The Series 2005 Bonds will be registered in the name of Cede & Co., as registered owner and nominee of The Depository Trust Company, New York, New York. DTC will act as securities depository for the Series 2005 Bonds, and purchases of beneficial ownership interests in the Series 2005 Bonds will be made in book-entry form only in denominations of \$25,000 and integral multiples thereof for Series 2005 Bonds while in the Auction Mode, or \$100,000 and any integral multiple of \$5,000 in excess thereof for Series 2005 Bonds while in the Daily Mode or the Weekly Mode. Purchasers will not receive certificates representing their beneficial interests in the Series 2005 Bonds. The principal of and interest on the Series 2005 Bonds will be paid by The Bank of New York Trust Company, N.A., as bond trustee (the "Bond Trustee") to Cede & Co. as long as Cede & Co. is the registered owner. Disbursement of such payments to DTC Participants is the responsibility of DTC, and disbursement of such payments to owners of beneficial ownership interests in the Series 2005 Bonds is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

The Series 2005 Bonds will be issued under and be secured by a Bond Trust Indenture between the ABAG Finance Authority for Nonprofit Corporations (the "Authority") and the Bond Trustee. The proceeds of the Series 2005 Bonds will be loaned to Eskaton Properties, Incorporated, a California nonprofit public benefit corporation (the "Corporation") for the purposes described herein. Except as described in this Official Statement, the Series 2005 Bonds will be payable solely from and secured by a pledge of payments to be made under the Loan Agreement and on Obligation No. 7 issued by the Corporation under a Master Trust Indenture among the Members of the Obligated Group created thereunder and The Bank of New York Trust Company, N.A., as master trustee. The sources of payment of, and security for, the Series 2005 Bonds are more fully described in this Official Statement.

When initially delivered, the Series 2005 Bonds will be in the Auction Mode. Merrill Lynch, Pierce, Fenner & Smith Incorporated will serve as Broker-Dealer for the Series 2005 Bonds. The Series 2005 Bonds may be converted from one Mode to another Mode, and the duration of the Interest Period for Series 2005 Bonds in the Auction Mode may be changed, all as described herein. All Series 2005 Bonds will be in the same Mode and Interest Period at any given time.

Payments of principal of and interest on the Series 2005 Bonds will be insured in accordance with the terms of a financial guaranty insurance policy to be issued simultaneously with the delivery of the Series 2005 Bonds by Radian Asset Assurance Inc.

Radian Asset Assurance Inc. **RADIAN**

The Series 2005 Bonds (i) are subject to optional and mandatory redemption and mandatory tender for purchase, and (ii) while in the Daily Mode or Weekly Mode are subject to optional tender for purchase, each as described herein. The Series 2005 Bonds will be issued in the Auction Mode, and will not be supported initially by a letter of credit, line of credit, standby bond purchase agreement or any other liquidity facility. If there is a failure to remarket Series 2005 Bonds in the Auction Mode upon mandatory tender, such Bonds shall remain in the Auction Mode and such Bonds shall bear interest at the Maximum Rate for the period described herein. The Series 2005 Bonds while in the Auction Mode are not subject to optional tender.

This Official Statement only describes the terms and provisions of the Series 2005 Bonds while in the Daily Mode, Weekly Mode or Auction Mode. If any Series 2005 Bond is converted from a Daily Mode, Weekly Mode or Auction Mode to a Mode other than the Daily Mode, Weekly Mode or Auction Mode, the Corporation will supplement this Official Statement or deliver a new official statement or remarketing circular describing the new Mode.

THE SERIES 2005 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED THEREFOR PURSUANT TO THE BOND INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE SERIES 2005 BONDS. THE SERIES 2005 BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO, DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE SERIES 2005 BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2005 BONDS. NEITHER THE AUTHORITY NOR ABAG HAS ANY TAXING POWER.

This cover page and the inside front cover page contain certain information for quick reference only. They are not intended to be a summary of the security for or the terms of the Series 2005 Bonds. Investors are instructed to read the entire Official Statement to obtain information essential to making an informed investment decision.

The Series 2005 Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice, and to the approval of legality of the Series 2005 Bonds by Holland & Knight LLP, San Francisco, California, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California; for the Bond Trustee and the Master Trustee by its counsel, Davis, Wright Tremaine LLP, San Anselmo, California; for the Obligated Group by its counsel, Hefner, Stark & Marois, LLP, Sacramento, California; for the Underwriter by its counsel, Ungaretti & Harris LLP, Chicago, Illinois; and for the Bond Insurer by its Senior Vice President and Deputy General Counsel. It is expected that the Series 2005 Bonds in definitive form will be available for delivery to DTC in New York, New York on or about December 20, 2005.

Cain Brothers

Merrill Lynch & Co.

The date of this Official Statement is December 10, 2005.

**OFFICIAL STATEMENT
MATURITY SCHEDULE**

\$49,000,000

**ABAG Finance Authority for Nonprofit Corporations
Revenue Refunding Bonds, Series 2005
(Eskaton Properties, Incorporated)
Auction Rate Securities**

Due: November 15, 2035*

CUSIP Number	Principal Amount	Initial Auction Date	Length of Initial Period	Initial Interest Payment Date	Auction Periods Generally	Auction Dates Generally	Interest Payment Dates Generally
00037C GV 6	\$49,000,000	January 4, 2006	16 Days	January 5, 2006	7-Day	Wednesday	Thursday

The Bank of New York acts as the Auction Agent and Merrill Lynch, Pierce, Fenner & Smith Incorporated acts as the Broker-Dealer for the Series 2005 Bonds.

* See "THE SERIES 2005 BONDS – General – Maturity" herein

REGARDING USE OF THIS OFFICIAL STATEMENT

No dealer, broker, sales representative or other person has been authorized by the Corporation and the other Members of the Obligated Group, the Authority, Radian Asset Assurance Inc. (the "Bond Insurer"), or Cain Brothers or Merrill Lynch, Pierce, Fenner & Smith Incorporated (collectively, the "Underwriter") to give information or to make any representations with respect to the Series 2005 Bonds, other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The information in this Official Statement is subject to change, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation or the other Members of the Obligated Group, the Authority or the Bond Insurer since the date hereof.

The information set forth in this Official Statement regarding the Authority and under the captions "THE AUTHORITY" and "LITIGATION – The Authority" has been obtained from the Authority. All other information herein, unless otherwise indicated, has been obtained by the Underwriter from the Corporation and the other Members of the Obligated Group, and other sources deemed by the Underwriter to be reliable, and is not to be construed as a representation by the Authority or the Underwriter. The Authority has not reviewed or approved any information in this Official Statement except information relating to the Authority and the information under the captions "THE AUTHORITY" and "LITIGATION – The Authority." The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Authority or the Corporation or the other Members of the Obligated Group since the date hereof (or since the date of any other information dated other than the date hereof).

OTHER THAN WITH RESPECT TO THE INFORMATION CONCERNING THE BOND INSURER CONTAINED UNDER THE CAPTION "BOND INSURANCE" HEREIN AND IN APPENDIX E – "SPECIMEN FINANCIAL GUARANTY INSURANCE POLICY" HERETO, NONE OF THE INFORMATION IN THIS OFFICIAL STATEMENT HAS BEEN SUPPLIED OR VERIFIED BY THE BOND INSURER AND THE BOND INSURER MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION; (II) THE VALIDITY OF THE SERIES 2005 BONDS; OR (III) THE TAX EXEMPT STATUS OF INTEREST ON THE SERIES 2005 BONDS.

The information in APPENDIX G has been furnished by DTC. All other information set forth herein has been furnished by the Members of the Obligated Group, unless otherwise indicated.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as part of its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The CUSIP number for the Series 2005 Bonds are included in this Official Statement for the convenience of the holders and potential holders of the Series 2005 Bonds. No assurance can be given that the CUSIP number for the Series 2005 Bonds will remain the same after the date of issuance and delivery of the Series 2005 Bonds.

The Series 2005 Bonds have not been registered under the Securities Act of 1933, as amended, and neither the Master Indenture nor the Bond Indenture has been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Series 2005 Bonds in accordance with applicable provisions of securities laws of the states in which the Series 2005 Bonds have been registered or qualified and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Series 2005 Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, any Series 2005 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

In connection with the offering of the Series 2005 Bonds, the Underwriter may over allot or effect transactions which stabilize or maintain the market price of the Series 2005 Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget" or similar words. Such forward-looking statements include, among others, statements made under the caption "BONDHOLDERS' RISKS" herein and in APPENDIX A hereto.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CORPORATION AND THE OTHER MEMBERS OF THE OBLIGATED GROUP DO NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN THEIR EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR OR FAIL TO OCCUR.

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OFFICIAL STATEMENT

relating to

\$49,000,000

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS REVENUE REFUNDING BONDS, SERIES 2005 (ESKATON PROPERTIES, INCORPORATED)

INTRODUCTION

The description and summaries of various documents hereinafter set forth do not purport to be comprehensive or definitive, and reference is made to each document for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each document. See APPENDIX C for definitions of certain words and terms used herein. This Official Statement describes the terms and provisions of the Series 2005 Bonds while in the Daily Mode, Weekly Mode and Auction Mode. In the event the Series 2005 Bonds are changed to a Mode other than the Daily Mode, Weekly Mode or Auction Mode, this Official Statement will be supplemented or a new reoffering document will be provided to describe the new Mode.

Purpose of this Official Statement. The purpose of this Official Statement, including the cover page and the appendices hereto, is to set forth information in connection with the offering by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") of its \$49,000,000 Revenue Refunding Bonds, Series 2005 (Eskaton Properties, Incorporated) Auction Rate Securities (the "Series 2005 Bonds" or the "Bonds"). The Series 2005 Bonds will be issued under and pursuant to a Bond Trust Indenture dated as of December 1, 2005 (the "Bond Indenture") between the Authority and The Bank of New York Trust Company, N.A., as bond trustee (the "Bond Trustee").

The Corporation and the Obligated Group. Eskaton Properties, Incorporated, a California nonprofit public benefit corporation (the "Corporation"), was incorporated in February of 1983 and is duly organized and existing under the laws of the State of California. The Corporation owns and operates three skilled nursing facilities, a congregate care facility, a continuing care retirement community, an independent living facility and an assisted living facility, all located in California, as follows: (1) Eskaton Care Center Greenhaven, a 148-bed skilled nursing facility in Sacramento, (2) Eskaton Care Center Fair Oaks, a 149-bed skilled nursing facility in Fair Oaks, (3) Eskaton Care Center Manzanita, a 99-bed skilled nursing facility in Carmichael, (4) Eskaton Monroe Lodge, a 101-unit congregate care facility in Sacramento, (5) Eskaton Village, Carmichael, a continuing care retirement community in Carmichael offering 201 independent living units, 94 cottages, 38 personal care units, 35 skilled nursing beds and 20 personal care units for residents with dementia, (6) Eskaton Henson Manor, an 80 unit apartment complex targeted to the low to moderate-income senior market in Sacramento, and (7) Eskaton Lodge Cameron Park, a 49 unit assisted living facility in Cameron Park (collectively, the "Eskaton Facilities"). The Corporation also owns a 27,000 square foot administrative center situated in Carmichael, California, which serves as the headquarters for the Corporation's parent, Eskaton ("Eskaton"), a California nonprofit public benefit corporation, and its affiliates. The Corporation also owns real estate for future development in Lincoln, California.

The Corporation, as the initial member of an obligated group established thereunder (the "Obligated Group" or the "Members of the Obligated Group"), entered into a Master Trust Indenture dated as of July 1, 1999, as heretofore supplemented and amended by a First Supplemental Master Trust

Indenture dated as of July 1, 1999, a Second Supplemental Master Trust Indenture dated as of August 1, 1999, a Third Supplemental Master Trust Indenture dated as of September 1, 2000, a Fourth Supplemental Master Trust Indenture dated as of December 28, 2000 and a Fifth Supplemental Master Trust Indenture dated as of December 31, 2003 (collectively, the "Original Master Indenture"), with The Bank of New York Trust Company, N.A. (as successor to BNY Western Trust Company), as master trustee (the "Master Trustee"). Pursuant to the terms of the Original Master Indenture, Eskaton Gold River Lodge, Inc., a California nonprofit public benefit corporation ("EGRL"), joined the Obligated Group. EGRL owns and operates a 95-bed assisted living facility in Gold River, California.

In connection with the issuance of the Series 2005 Bonds and the issuance of Obligation No. 7 and the Swap Obligation (as hereinafter defined), the Corporation, as Obligated Group Representative on behalf of the Obligated Group, and the Master Trustee will execute and deliver the Sixth Supplemental Master Trust Indenture dated as of December 1, 2005 (the "Sixth Supplemental Master Indenture" and, together with the Original Master Indenture, the "Master Indenture"). It is anticipated that Eskaton Village - Grass Valley, a California nonprofit public benefit corporation ("EVG"), will join the Obligated Group concurrently with the issuance of the Series 2005 Bonds. EVG owns and operates a facility consisting of 57 assisted living units and 80 congregate care units in Grass Valley, California.

More detailed information concerning the Corporation and the other Members of the Obligated Group and their operations and financial condition is set forth in APPENDIX A attached hereto. The audited consolidated financial statements of Eskaton and Subsidiaries for the fiscal years ended December 31, 2004 and 2003 are set forth in APPENDIX B attached hereto.

Other entities may become a Member of the Obligated Group and each of the current Members of the Obligated Group may cease to be a Member of the Obligated Group, all in accordance with the procedures set forth in the Master Indenture.

The Authority. The Authority is a joint exercise of powers authority duly organized and existing under the provisions of Articles 1 through 4 (commencing with Section 6500) of Chapter 5 of Division 7 of the Government Code of the State of California (the "Act") and a Joint Powers Agreement, dated as of April 1, 1998, as amended as of September 18, 1990 and June 9, 1992, in order to assist nonprofit corporations and other entities to obtain financing for projects located within the several jurisdictions of the Authority members with purposes serving the public interest and is authorized to issue revenue bonds to finance construction, expansion, remodeling, renovation, furnishing, equipping, and acquisition of facilities operated by nonprofit corporations.

Purpose of the Series 2005 Bonds. The proceeds to be received by the Authority from the sale of the Series 2005 Bonds will be loaned to the Corporation pursuant to a Loan Agreement dated as of December 1, 2005 (the "Loan Agreement"). Such proceeds of the Series 2005 Bonds will be used, together with other available funds, to (i) advance refund \$11,945,000 in outstanding principal amount of the ABAG Finance Authority for Nonprofit Corporations Revenue Certificates of Participation (Eskaton Gold River Lodge) Series 1998 (the "Series 1998 Certificates"), which were originally issued in the aggregate principal amount of \$12,710,000, (ii) advance refund \$19,270,000 in outstanding principal amount of the California Statewide Communities Development Authority ("CSCDA") Revenue Bonds (Eskaton Village-Grass Valley) Series 2000 (the "Series 2000 Bonds" and, together with the Series 1998 Certificates, the "Refunded Bonds"), which were originally issued in the aggregate principal amount of \$19,750,000, (iii) finance, including through reimbursement, the cost of acquiring, constructing, renovating, rehabilitating and equipping certain facilities of the Obligated Group (the "Project"), (iv) fund a debt service reserve fund, and (v) pay certain expenses incurred in connection with the issuance of the Series 2005 Bonds, including the costs of obtaining the Policy (as hereinafter defined), and the

advance refunding of the Refunded Bonds. See "PLAN OF FINANCE" and "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Security for the Series 2005 Bonds. THE SERIES 2005 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED THEREFOR PURSUANT TO THE BOND INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE SERIES 2005 BONDS. THE SERIES 2005 BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO, DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE SERIES 2005 BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2005 BONDS. NEITHER THE AUTHORITY OR ABAG HAS ANY TAXING POWER.

The Series 2005 Bonds are special limited obligations of the Authority and are payable solely from (i) payments or prepayments to be made on Obligation No. 7 pledged under the Bond Indenture, (ii) payments or prepayments made under the Loan Agreement (other than Unassigned Rights, as defined in the Bond Indenture), (iii) moneys and investments held by the Bond Trustee under, and to the extent provided in, the Bond Indenture, and (iv) in certain circumstances, proceeds from certain insurance and condemnation awards.

The Series 2005 Bonds will be issued under and be secured by the Bond Indenture, and the Authority will loan the proceeds from the sale of the Series 2005 Bonds to the Corporation pursuant to the Loan Agreement. To evidence the loan of the proceeds from the sale of the Series 2005 Bonds, the Corporation will, pursuant to the Master Indenture, issue and deliver to the Authority its Obligation No. 7 ("Obligation No. 7") in a principal amount equal to the aggregate principal amount of the Series 2005 Bonds. The Authority will pledge and assign Obligation No. 7 and certain of its rights under the Loan Agreement to the Bond Trustee as security for the Series 2005 Bonds. The terms of Obligation No. 7 will require payments by the Corporation which, together with other moneys available therefor (and interest earned thereon), will be sufficient to provide for the payment of the principal of, premium, if any, and interest on the Series 2005 Bonds. Obligation No. 7 will entitle the Bond Trustee, as the holder thereof, to the protection of the covenants, restrictions and other obligations imposed upon the Members of the Obligated Group by the Master Indenture.

Obligation No. 7, as well as the Existing Obligations, the Swap Obligation and any additional Obligations (all as hereinafter described) will be full and unlimited general obligations of the Corporation, the other Members of the Obligated Group and any future Members of the Obligated Group, and will be equally and ratably secured by (i) a security interest in the Gross Revenues of the Obligated Group, subject to certain exceptions, and (ii) one or more Deeds of Trust (collectively, the "Deed of Trust") creating a first mortgage lien on all of the real property and fixtures of the Members of the Obligated Group (with the exception of Eskaton's corporate headquarters building) (the "Mortgaged

Facilities") granted by such Members to the Master Trustee. While the Deed of Trust will secure all Obligations under the Master Indenture, such Deed of Trust may be modified or terminated with the consent of the Bond Insurer and without the consent of any holders of an Obligation or of the Series 2005 Bonds. See "BONDHOLDERS' RISKS – Matters Relating to Enforceability," for a description of, among other matters, possible instances in which such security interest in the Gross Revenues of the Obligated Group or the Mortgage may not have priority or may not be enforceable.

Payment of principal of and interest on the Series 2005 Bonds will be insured in accordance with the terms of a financial guaranty insurance policy (the "Policy") to be issued by Radian Asset Assurance Inc. (the "Bond Insurer") simultaneously with the delivery of the Series 2005 Bonds. For further information, see the information under the captions "BOND INSURANCE" and "BONDHOLDERS' RISKS – Bond Insurance" herein and in APPENDIX E – "Specimen Financial Guaranty Insurance Policy" hereto.

Pursuant to the terms of the Sixth Supplemental Master Indenture, the Obligated Group has agreed with the Bond Insurer to comply with all provisions of the Master Indenture and various other covenants solely for the benefit of the Bond Insurer. See "Summary of Principal Documents – Summary of Certain Provisions of the Sixth Supplemental Master Indenture" in APPENDIX C hereto. Generally, such covenants (the "Bond Insurer Covenants") are more restrictive than the covenants contained in the Master Indenture. The Bond Insurer Covenants can only be enforced by the Bond Insurer and may be modified, released, amended or waived with the prior written consent of the Bond Insurer and without the consent of the Master Trustee, the Bond Trustee, the holder of the Series 2005 Obligation, or any owner of the Series 2005 Bonds. Accordingly, purchasers of the Series 2005 Bonds may not rely on such covenants, but rather should rely solely on the covenants contained in the Bond Indenture, the Loan Agreement and the Master Indenture (other than the Bond Insurer Covenants) which are summarized in APPENDIX C hereto.

Payment of the principal of and interest on the Series 2005 Bonds will be additionally secured by cash deposited to the credit of the Debt Service Reserve Fund created under the Bond Indenture. See "SECURITY FOR THE SERIES 2005 BONDS" below, and "Summary of Principal Documents – Summary of Certain Provisions of the Bond Indenture – Funds – Debt Service Reserve Fund" in APPENDIX C attached hereto.

For further information concerning the security for the Series 2005 Bonds, see "SECURITY FOR THE SERIES 2005 BONDS."

Additional and Outstanding Indebtedness. The Corporation, the other Members of the Obligated Group and any future Members of the Obligated Group may issue additional Obligations under the Master Indenture to the Authority or to parties other than the Authority that will not be pledged under the Bond Indenture, but will be equally and ratably secured with Obligation No. 7. See "Summary of Principal Documents – Summary of Certain Provisions of the Master Indenture – Limitations on Additional Indebtedness" in APPENDIX C attached hereto.

Obligation No. 7 and the Swap Obligation will be equally and ratably secured under the Master Indenture on a parity with the other Obligations previously issued by the Corporation under the Master Indenture and which will remain outstanding upon the issuance of the Series 2005 Bonds, as follows (the "Existing Obligations"):

<u>Designation</u>	<u>Original Principal Amount</u>	<u>Outstanding Principal Amount⁽¹⁾</u>	<u>Payee/Assignee</u>
Obligation No. 1	\$67,500,000	\$64,050,000	The Bank of New York Trust Company, N.A., as Bond Trustee for the Series 1999 Select Auction Variable Rate Securities ("SAVRS") Bonds (the "SAVRS Bonds")
Obligation No. 2	\$48,350,000*	\$46,560,000*	Lehman Brothers Special Financing, Inc., as Swap Counterparty relating to the SAVRS Bonds
Obligation No. 3	\$4,000,000 ⁽²⁾	\$0	The Bank of America, N.A.
Obligation No. 4	\$19,750,000	\$0	The Bank of New York Trust Company, N.A., as Bond Trustee for the Series 2000 Bonds
Obligation No. 5	\$15,950,000*	\$14,750,000*	Lehman Brothers Special Financing, Inc., as Swap Counterparty relating to the SAVRS Bonds
Obligation No. 6	\$12,710,000	\$0	U.S. Bank Trust Company, as Bond Trustee for the Series 1998 Bonds
Obligation No. 7	\$49,000,000	\$49,000,000	The Bank of New York Trust Company, N.A., as Bond Trustee for the Series 2005 Bonds
Obligation No. 8	\$49,000,000*	\$49,000,000*	Wachovia Bank, National Association, as Swap Counterparty, N.A.

(1) Amount anticipated to be outstanding upon the issuance of the Series 2005 Bonds and the application of the proceeds thereof.

(2) This Obligation supports the reimbursement of a letter of credit issued for a workers compensation self-insurance program. While the letter of credit has not been drawn upon, it could be in the future.

* Notional Amount

Obligation No. 7, the Swap Obligation, the above-described Obligations of the Corporation and any additional Obligations issued under the Master Indenture are hereinafter collectively referred to as the "Obligations."

Continuing Disclosure. The Corporation will enter into an undertaking for the benefit of the holders of the Series 2005 Bonds to provide certain information and to provide notice of certain events to certain information repositories. 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.

Bondholders' Risks. AN INVESTMENT IN THE SERIES 2005 BONDS INVOLVES A CERTAIN DEGREE OF RISK. A PROSPECTIVE BONDHOLDER IS ADVISED TO READ "SECURITY FOR THE SERIES 2005 BONDS" and "BONDHOLDERS' RISKS" HEREIN FOR A DISCUSSION OF CERTAIN RISK FACTORS WHICH SHOULD BE CONSIDERED IN CONNECTION WITH AN INVESTMENT IN THE SERIES 2005 BONDS. Careful consideration should be given to these risks and other risks described elsewhere in this Official Statement. Among

other things, since the Series 2005 Bonds are payable from the revenues of the Obligated Group, and other moneys pledged to such payment, careful evaluation should be made of certain factors that may adversely affect the ability of the Corporation, the other Members of the Obligated Group or any future Member of the Obligated Group to generate sufficient revenues to pay expenses of operation, including the principal of, premium, if any, and interest on the Series 2005 Bonds. See "BONDHOLDERS' RISKS." The following descriptions and summaries of the Series 2005 Bonds, the Bond Indenture, the Loan Agreement, the Bond Insurer, the Policy, the Continuing Disclosure Agreement, the Broker-Dealer Agreement, the Auction Agent Agreement, Obligation No. 7, the Swap Obligation 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 SERIES 2005 BONDS

This Official Statement summarizes certain terms and provisions of the Series 2005 Bonds only while in the Daily Mode, Weekly Mode or Auction Mode. If any Series 2005 Bond is changed from a Daily Mode, Weekly Mode or Auction Mode, to a Mode other than the Daily Mode, Weekly Mode or Auction Mode, the Corporation will supplement this Official Statement or deliver a new official statement or remarketing circular describing the new Mode.

The following is a summary of certain provisions of the Series 2005 Bonds. Reference is made to the Series 2005 Bonds and to the Bond Indenture for a more detailed description of such provisions. The discussion herein is qualified by such reference. See APPENDIX C – "Summary of Principal Documents" and APPENDIX F – "Auction Procedures."

General

The Series 2005 Bonds will be issued as fully registered bonds without coupons and will be dated the date of initial delivery. The Series 2005 Bonds will initially operate in the Auction Mode with an Interest Period of 7 days.

All Series 2005 Bonds will be in the same Mode and Interest Rate at any given time.

The Series 2005 Bonds will be subject to mandatory, optional and extraordinary optional redemption and optional purchase prior to maturity as described under "THE SERIES 2005 BONDS - Redemption" and will be subject to optional and mandatory tender, as applicable, as described under "THE SERIES 2005 BONDS – Tenders."

The Series 2005 Bonds will be made available to Beneficial Owners in book-entry form only, in Authorized Denominations of \$25,000 and any integral multiple thereof.

Beneficial Owners of the Series 2005 Bonds will not receive certificates representing their interests in the Series 2005 Bonds, except as described below. So long as Cede & Co. is the registered owner of a Series 2005 Bond, the principal and Purchase Price of, and the interest on, the Series 2005 Bonds are payable by wire transfer by the Bond Trustee (or in the case of the Purchase Price, by the Tender Agent) to Cede & Co., as nominee for DTC which, in turn, will remit such amounts to DTC Participants for subsequent disbursement to the Beneficial Owners. So long as all records of ownership of a series of Bonds are maintained through the book-entry only system, all payments to the Beneficial

Owners of such Series 2005 Bonds will be made in accordance with the procedures described in APPENDIX G – "Book-Entry Only System."

If the book-entry only system for the Series 2005 Bonds is discontinued, the following provisions would apply. Principal of and premium, if any, or redemption price of the Series 2005 Bonds will be payable at the Principal Office of the Bond Trustee to the registered owners of such Series 2005 Bonds on such date. Interest on the Series 2005 Bonds will be payable to the persons whose names appear on the Bond Register as the holders thereof as of the close of business on the Record Date (as hereinafter defined) for each Interest Payment Date. Payment of the interest on the Series 2005 Bonds is required to be made by wire transfer in immediately available funds to an account within the United States of America designated by each holder thereof.

Notwithstanding the foregoing, payment of Defaulted Interest on the Series 2005 Bonds shall cease to be payable to the holders of such Series 2005 Bonds on the day, whether or not a Business Day, immediately preceding each Interest Payment Date (i.e., the Record Date) and shall be payable to the holders in whose names such Series 2005 Bonds are registered at the close of business on the Special Record Date for the payment of such Defaulted Interest fixed by the Bond Trustee, which shall be not more than 15 or less than 10 days prior to the date of the proposed payment and not less than 10 days after receipt by the Bond Trustee of the notice of the proposed payment.

Interest on the Series 2005 Bonds will be calculated as described below and will be payable on each Interest Payment Date for the Series 2005 Bonds in an amount equal to all interest which has accrued during the period from (and including) the last such Interest Payment Date to (but not including) such current Interest Payment Date. In no event shall any Series 2005 Bond bear interest at a rate per annum in excess of the Maximum Rate. "Maximum Rate" means the lesser of (a) 12% per annum, (b) the maximum interest rate permitted by law, and (c) with respect to Series 2005 Bonds in the Daily Mode and the Weekly Mode, the maximum interest rate provided by the Liquidity Facility to pay tenders of such Series 2005 Bonds.

The Bond Indenture provides for a Tender Agent. At the time the Series 2005 Bonds are issued, the Bond Trustee will also serve as the Tender Agent under each Bond Indenture.

Maturity

The Series 2005 Bonds shall mature on, and the Maturity Date thereof shall be, the Interest Payment Date for such Series 2005 Bonds immediately preceding the stated maturity date on the inside front cover.

Interest

Interest on the Series 2005 Bonds shall be calculated on the basis of a 360-day year for the number of days actually elapsed during an Auction Mode of 183 days or less and a 360-day year of twelve 30-day months during an Auction Mode of more than 183 days. Interest accrued on the Series 2005 Bonds shall be payable in arrears on the applicable Interest Payment Dates for such Series 2005 Bonds.

Determination of Interest Rates in the Auction Mode

Certain terms used herein have the following meanings, and certain additional terms used herein are defined in APPENDIX F hereto.

"*Auction Date*" means the Business Day immediately preceding the first day of each Auction Period (or such other day that the Market Agent shall establish as the Auction Date therefor as described under the caption "Changes in Auction Period or Auction Date" in APPENDIX F); provided, however, that the last Auction Date in an Auction Period shall be the earlier of (i) the Business Day next preceding the last Interest Payment Date before a Mode Change Date and (ii) the Business Day next preceding the last Interest Payment Date before the Maturity Date. The first Auction Date for the Series 2005 Bonds is January 4, 2006.

"*Auction Period*" means:

- 1) the period from and including any Auction Rate Mode Change Date, to and including the first Auction Date following such Auction Rate Mode Change Date, as applicable; and
- 2) thereafter until a Mode Change Date or until the Maturity Date, each period of 7 days (unless changed as described under the caption "Changes in Auction Period or Auction Date" in APPENDIX F), from and including the last Interest Payment Date for the immediately preceding Auction Period, to and including the next succeeding Auction Date or, in the event of an Auction Period with an Interest Payment Date on a Monday, the Sunday following the next succeeding Auction Date or, in the event of a change to a different Mode, to but excluding the Mode Change Date; provided, if any day that would be the last day of any such period does not immediately precede a Business Day, such period shall end on the next day which immediately precedes a Business Day.

"*Auction Rate*" means the rate of interest to be borne by the Series 2005 Bonds during each respective Auction Period, not greater than the Maximum Rate, which, after the initial Auction Period applicable to such Series 2005 Bond (i) if Sufficient Clearing Bids exist, will be the Winning Bid Rate applicable to such Series 2005 Bond; provided, however, that if all Series 2005 Bonds of a series that are subject to Auction (as described below) on the same Auction Date are the subject of Submitted Hold Orders, the Auction Rate will be the All Hold Rate; and (ii) if Sufficient Clearing Bids do not exist, will be the Maximum Rate.

Interest

The Series 2005 Bonds will bear interest at the Initial Auction Rate applicable thereto as set forth on the inside front cover page hereof. The Initial Auction Rate for the Series 2005 Bonds will be applicable from the date of initial delivery of such Series 2005 Bonds through the initial Auction Period. Thereafter, the Series 2005 Bonds will bear interest at the Auction Rates determined as described herein unless and until they are converted to another Mode as described below. The Auction Rate for the Series 2005 Bonds for each Auction Period subsequent to the initial Auction Period applicable to such Series 2005 Bonds will, subject to certain exceptions herein described, be equal to the rate that the Auction Agent advises has resulted on the Auction Date from the implementation of the auction procedures set forth in the Bond Indenture and summarized in APPENDIX F hereto (the "Auction Procedures") in which persons determine to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell such Series 2005 Bonds while in the Auction Mode. Each periodic implementation of the Auction Procedures is hereinafter referred to as an "Auction."

In the event the Auction Agent fails to calculate or, for any reason, fails to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 28 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Rate for the new Auction Period shall be the same as the Auction Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 28 days, the preceding Auction Period shall be

extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day, then to the next succeeding day which is followed by a Business Day), and the Auction Rate in effect for the preceding Auction Period shall continue in effect for the Auction Period as so extended. In the event the Auction Period is extended as set forth in clause (ii) above, an Auction shall be held on the last Business Day of the Auction Period as so extended.

In the event that the Series 2005 Bonds are not rated or if such Series 2005 Bonds are no longer maintained in book-entry only form by the Securities Depository, no Auctions will be held for such Series 2005 Bonds and the Auction Rate for such Series 2005 Bonds will be the Maximum Rate.

The Auction Procedures for the Series 2005 Bonds shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Bond Trustee or the Corporation of the occurrence of an event of default under the Bond Indenture resulting from a failure by the Authority to pay principal, premium or interest on any such Bonds when due, together, with the failure by the Bond Insurer to honor its obligations under the Policy, but shall resume two Business Days after the date on which the Auction Agent receives written notice from the Bond Trustee that such event of default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter. The Auction Rate during this period shall be the Maximum Rate.

The Interest Payment Date for the Initial Period for the Series 2005 Bonds is January 5, 2006 and thereafter is the Business Day immediately following the last day of each Auction Period; provided that if an Auction Period exceeds one year, the Interest Payment Date shall be the first January 1 or July 1 following the month in which such Auction Period commences and each January 1 or July 1 thereafter during such Auction Period and the Business Day immediately following the last day of such Auction Period.

Auction Agent

The Bond Indenture provides that the Corporation shall appoint an Auction Agent, with the consent of the Bond Insurer. The Auction Agent may be removed at any time by the Corporation, with the consent of the Bond Insurer. In connection with the issuance of the Series 2005 Bonds, the Corporation and an Auction Agent will enter into an Auction Agreement which will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures. The terms and provisions of the Auction Agreement must be acceptable to the Bond Insurer. The Bond Trustee will enter into an Auction Agreement with The Bank of New York, as agent for the Bond Trustee, which agent shall perform the duties of Auction Agent with respect to the Series 2005 Bonds.

Broker-Dealer; Marketability

Each Auction requires the participation of one or more broker-dealers ("Broker-Dealer" or "Broker-Dealers"). The Auction Agent will enter into a Broker-Dealer Agreement with Merrill Lynch, Pierce, Fenner & Smith Incorporated, as initial Broker-Dealer, concurrently with the issuance of the Series 2005 Bonds. The Corporation and The Bank of New York (and any additional Auction Agent appointed with respect to the Series 2005 Bonds) may enter into similar agreements with one or more additional broker-dealers in the future which provide for the participation of such Broker-Dealers in Auctions. No Broker-Dealer shall have the right to consent to the appointment of other Broker-Dealers. The ability to sell Series 2005 Bonds in an Auction may be adversely affected if there are not sufficient buyers willing to purchase all of such Series 2005 Bonds at a rate equal to or less than the Maximum

Rate. See the information under the caption "BONDHOLDERS' RISKS – Other Risks – Auction Rate Securities" herein.

Changes in Auction Periods

During any Auction Period, the Corporation may, from time to time, on any Interest Payment Date, change the length of the Auction Period to a period of any integral multiple of seven days or to a six-month or an integral multiple of six months Auction Period (provided that the length of the first Auction Period after such change in length or change in Auction Date may be the number of days necessary to result in the immediately following Auction Period having a length which is an integral multiple of seven days or six months, as applicable) in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by Series 2005 Bonds. The Corporation shall initiate the change in the length of the Auction Period by giving written notice at least ten (10) Business Days prior to the Auction Date for such Auction Period to the Authority, the Bond Trustee, the Auction Agent, the Market Agent, the Broker-Dealer(s), the Bond Insurer and the Securities Depository that the Auction Period for the Series 2005 Bonds specified in such notice will change if the conditions described below are satisfied and the proposed effective date of the change. Any notice of any such change in the length of an Auction Period shall be accompanied by (a) a written statement from all of the Broker-Dealers, addressed to the Authority and the Bond Trustee, to the effect that the Broker-Dealers have determined, in their sole judgment, that such change in the length of the Auction Period would result in the lowest aggregate cost, taking into account interest and other determinable fees and expenses, being payable with respect to such Series 2005 Bonds over the next 12 months commencing with the date of such change, or (b) an approval in writing of such change by a duly authorized officer of the Authority, or (c) a Favorable Opinion of Bond Counsel, to the effect that such approval is not required for the continued validity and enforceability of such Series 2005 Bonds in accordance with their terms. Except as permitted by the proviso immediately above, any such changed Auction Period shall be for a period of any integral multiple of seven days or for a period of six months or any integral multiple of six months and shall be for all of the Series 2005 Bonds identified in the Corporation's notice referred to immediately above. The change in the length of an Auction Period for all or a portion of the Series 2005 Bonds shall not be allowed unless Sufficient Clearing Bids for such Series 2005 Bonds existed at both the Auction before the date on which the notice of the proposed change was given and the Auction immediately preceding the proposed change. The change in length of such Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Series 2005 Bonds subject to such Auction, except to the extent an Existing Owner submits an Order with respect to its Series 2005 Bonds subject to such Auction. If Sufficient Clearing Bids do not exist at the Auction on the Auction Date for such first Auction Period, the Auction Rate for the next Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

Changes in Auction Dates

During any Auction Period, the Market Agent, with the written consent of the Corporation and the Bond Insurer, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the series of Series 2005 Bond affected thereby. The Market Agent shall provide notice of its determination to specify an earlier Auction Date for an Action Period by means of a written notice delivered at least 45 days prior to the proposed

changed Auction Date to the Bond Trustee, the Corporation, the Authority, the Broker-Dealers, the Auction Agent and the Securities Depository.

Changes to the Auction Period and Auction Dates do not require an amendment of the Auction Procedures or any Bondholder consent. See "Changes in Auction Period or Auction Date" in APPENDIX F hereto.

Amendment of Auction Procedures

During an Auction Period, with the prior written consent of the Bond Insurer, the provisions summarized in APPENDIX F hereto, including, without limitation, the definitions of All-Hold Rate, Interest Payment Date and Auction Rate, may be amended pursuant to the provisions of the Bond Indenture summarized under "Summary of Principal Documents – Summary of Certain Provisions of the Bond Indenture – Supplemental Bond Indentures" in APPENDIX C hereto. If the amendment is pursuant to the provisions summarized under such subheading, and on the first Auction Date occurring at least 20 days after the date on which the Bond Trustee mailed notice of such proposed amendment to the holders of the Outstanding Series 2005 Bonds affected by such amendment, as required by such provisions, (i) Sufficient Clearing Bids have been received or all of such Series 2005 Bonds are subject to Submitted Hold Orders, and (ii) there is delivered to the Authority and the Bond Trustee a Favorable Opinion of Bond Counsel with respect to such amendment, the proposed amendment shall be deemed to have been consented to by the holders of all Outstanding Series 2005 Bonds affected by such amendment.

Restrictions on Transfers during Auction Period; Secondary Markets

During an Auction Period, so long as ownership of Series 2005 Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a Beneficial Owner may sell, transfer or otherwise dispose of its Series 2005 Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member (as defined in APPENDIX F) advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of such Series 2005 Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Series 2005 Bonds to that Broker-Dealer or to another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of the foregoing if such Broker-Dealer remains the Existing Owner of such Bonds immediately after such sale, transfer or disposition.

Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Broker-Dealer for the Series 2005 Bonds, has advised the Corporation that it intends to make a market in such Series 2005 Bonds between Auctions; however, Merrill Lynch, Pierce, Fenner & Smith Incorporated is not obligated to do so, and no assurance can be given that secondary markets therefor will develop.

Determination of Interest Rates During the Daily Mode and the Weekly Mode

Interest on the Series 2005 Bonds in the Daily Mode or Weekly Mode shall accrue at the rate of interest per annum determined by the Remarketing Agent on and as of the Rate Determination Date as the minimum rate of interest which, in the judgment of the Remarketing Agent under then-existing market conditions, would result in the sale of such Series 2005 Bonds, on the Rate Determination Date in the case of the Daily Mode and on the first day of the Interest Period immediately succeeding the Rate Determination Date in the case of the Weekly Mode, at a price equal to the Purchase Price. Such determination shall be conclusive and binding upon the interested parties.

During the Daily Mode, the Remarketing Agent shall establish the Daily Rate by 10:00 a.m. Eastern time on each Business Day. The Daily Rate for any day during the Daily Mode which is not a Business Day shall be the Daily Rate established on the immediately preceding Business Day. The Remarketing Agent shall make the Daily Rate available (i) by telephone to the applicable Bond Trustee, any requesting Bondholder or other Interested Party who contacts the Remarketing Agent and (ii) by Immediate Notice to the Bond Trustee and the Bond Insurer by 2:00 p.m. Eastern time on the Business Day after the Rate Determination Date.

During the Weekly Mode, the Remarketing Agent shall establish the Weekly Rate by 10:00 a.m. Eastern time on each Rate Determination Date. The Weekly Rate shall be in effect (1) initially, from and including the first day any Bonds become subject to the Weekly Mode to and including the following Wednesday and (2) thereafter, from and including each Thursday to and including the following Wednesday. The Remarketing Agent shall make the Weekly Rate available (i) after 4:00 p.m. Eastern time on the Rate Determination Date by telephone to the Bond Trustee, any Bondholder or other Interested Party who contacts the Remarketing Agent and (ii) by Immediate Notice to the Bond Trustee and the Bond Insurer not later than 2:00 p.m. Eastern time on the Business Day after the Rate Determination Date.

If (a) the Remarketing Agent fails or is unable to determine the interest rate(s) or Interest Periods with respect to such Series 2005 Bonds, or (b) the method of determining the interest rate(s) or Interest Periods with respect to such Series 2005 Bonds shall be held to be unenforceable by a court of law of competent jurisdiction, such Series 2005 Bonds shall thereupon, until such time as the Remarketing Agent again makes such determination or until there is delivered an Opinion of Counsel to the effect that the method of determining such rate is enforceable, bear interest from the last date on which such rate was determined in the case of clause (a) and from the date on which interest was legally paid in the case of clause (b), at an annual rate equal to the BMA Municipal Swap Index, announced or published immediately prior to the date such rate is determined.

Each Series 2005 Bond during a Daily Mode or Weekly Mode authenticated prior to the first Interest Payment Date thereon shall bear interest from the date of the first authentication and delivery of such Bond. Interest payable on a Series 2005 Bond during a Daily Mode or a Weekly Mode shall be payable on each Interest Payment Date for the period from the later of (i) with respect to Series 2005 Bonds in a Daily Mode, commencing on a Business Day and extending to, but not including, the next succeeding Business Day, or (ii) with respect to Series 2005 Bonds in a Weekly Mode, commencing on the first day such Bonds begin to accrue interest in the Weekly Mode and ending on the next succeeding Wednesday and, thereafter commencing on each Thursday and ending on Wednesday of the following week.

The Interest Payment Date for Series 2005 Bonds during a Daily Mode or a Weekly Mode is the first Business Day of each month.

Changes in Modes

The Corporation may direct that the Series 2005 Bonds be converted to another Mode upon satisfaction of certain conditions set forth in the Bond Indenture.

Changes to Modes Other Than the Fixed Rate Mode

The Corporation may effect a change in Mode with respect to the Series 2005 Bonds to another Mode (other than the Fixed Rate Mode) by giving, no later than the 15th day preceding the proposed

Mode Change Date, Immediate Notice to the Authority, the Bond Trustee, the Tender Agent, the Remarketing Agent (if any), the Auction Agent (if any), the Broker-Dealer (if any), the Liquidity Facility Provider (if any) and the Bond Insurer, specifying the Series 2005 Bonds to which such notice relates and its intention to effect a change in the Mode from the Mode then in effect (the "Current Mode") to another Mode (the "New Mode") specified in such written notice, and if the change is to an Auction Mode, the length of the initial Auction Period. Notice of the Mode Change Date shall be given to the holders as described below under the caption "THE SERIES 2005 BONDS – Tenders – Mandatory Purchase on Mode Change Date."

The New Mode shall commence on the Mode Change Date and interest rate(s) with respect to such Bonds in the New Mode shall be determined as provided in the Bond Indenture.

The following conditions precedent must be satisfied in order to change to the New Mode on the Mode Change Date:

- (a) The Mode Change Date shall be a Business Day.
- (b) As applicable to such Series 2005 Bonds to be converted, the Bond Trustee, the Authority, the Corporation, the Tender Agent, the Auction Agent (if any), the Liquidity Facility Provider (if any), the Bond Insurer and the Remarketing Agent (if any) shall have received on the Mode Change Date a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Bond Trustee, the Authority, the Tender Agent, the Auction Agent (if any), the Broker-Dealers (if any), the Liquidity Facility Provider (if any), the Bond Insurer and the Remarketing Agent (if any).
- (c) If the Current Mode is a Mode other than an Auction Mode and the New Mode is an Auction Mode, the Corporation shall have appointed an Auction Agent and a Broker-Dealer.
- (d) If the Current Mode is the Auction Mode, the Corporation shall have appointed a Remarketing Agent and a Tender Agent (other than in the case of a change to a Fixed Rate Mode).
- (e) The Corporation shall deliver to the Tender Agent a Liquidity Facility if such a Liquidity Facility is required to be in effect under the terms of the Bond Indenture.
- (f) If there is no Liquidity Facility in effect to provide funds for the purchase of the Bonds to be converted to the New Mode on the Mode Change Date, the remarketing proceeds available on the Mode Change Date shall not be less than the amount required to purchase all of the Series 2005 Bonds which are converting on such Mode Change Date at the Purchase Price.
- (g) Except with respect to a change from the Daily Mode to the Weekly Mode or vice versa, the Bond Insurer shall have consented to such conversion.
- (h) Except with respect to a change from the Daily Mode to the Weekly Mode or vice versa, the Bond Trustee shall receive from each Rating Agency then rating the Series 2005 Bonds, the ratings applicable to such Series 2005 Bonds immediately following the Mode Change Date.

In the event that any of the conditions have not been satisfied by the Mode Change Date for a series of Series 2005 Bonds, the New Mode shall not take effect for such Series 2005 Bonds proposed to be converted to a New Mode, such Series 2005 Bonds shall not be purchased on the proposed Mode Change Date. If the change was from an Auction Mode, such Series 2005 Bonds proposed to be changed to the New Mode shall remain in the Auction Mode and the Auction Period shall automatically convert to

a seven day period commencing on the failed Mode Change Date and the interest rate borne by such Series 2005 Bonds proposed to be changed to the New Mode during the Auction Period commencing on such failed Mode Change Date shall be the Maximum Rate until the first Auction Date after the proposed Mode Change Date. If the change was from the Daily Mode or the Weekly Mode, such Series 2005 Bonds shall be automatically changed to a Daily Mode.

Changes to Fixed Rate Mode

At the option of the Authority and upon the direction of the Corporation, the Corporation may effect a change in Mode with respect to any Series 2005 Bonds to the Fixed Rate Mode by giving, not less than 30 days (or such shorter time as may be agreed to by the Bond Trustee, the Remarketing Agent (if any) and the Auction Agent (if any)) before the proposed Mode Change Date, written notice to the Bond Trustee, the Authority, the Tender Agent, the Auction Agent (if any), the Broker-Dealers (if any), the Liquidity Facility Provider (if any), the Remarketing Agent (if any), the Bond Insurer and each Rating Agency then rating such Series 2005 Bonds proposed to be changed to the New Mode stating that the Mode will be changed to the Fixed Rate Mode and setting forth the proposed Mode Change Date. Such notice shall be accompanied by an approval in writing of the change to the Fixed Rate Mode by the Authority and the Bond Insurer.

The New Mode shall commence on the Mode Change Date and the interest rate(s) with respect to such Bonds in the New Mode shall be determined as provided in the Bond Indenture.

The following conditions precedent must be satisfied in order for the Fixed Rate Mode to take effect:

- (a) The Mode Change Date shall be a Business Day.
- (b) Not less than fifteen (15) days next preceding the Mode Change Date, the Tender Agent shall mail, in the name of the Authority, a note of such proposed change to the Holders of the Series 2005 Bonds proposed to be changed to the Fixed Rate stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date and that such Holder is required to tender such Holder's Series 2005 Bonds proposed to be changed to the Fixed Rate for purchase on such proposed Mode Change Date.
- (c) As applicable to such Series 2005 Bonds to be converted, the Bond Trustee, the Authority, the Remarketing Agent (if any), the Bond Insurer, the Auction Agent (if any) and the Corporation shall have received, on the Mode Change Date, a Favorable Opinion of Bond Counsel dated the Mode Change Date and addressed to the Authority, the Bond Trustee, the Remarketing Agent (if any), the Bond Insurer and the Auction Agent (if any).
- (d) Prior to the conversion to the Fixed Rate Mode, the certificate of the Remarketing Agent setting forth a maturity and amortization schedule for the converted Series 2005 Bonds shall be provided to the Bond Trustee, the Bond Insurer, the Authority and the Corporation.
- (e) Prior to the conversion of a series of Series 2005 Bonds to the Fixed Rate Mode, a firm underwriting or purchase contract from a recognized firm of bond underwriters or recognized institutional investors to underwrite or purchase all Series 2005 Bonds proposed to be changed to the Fixed Rate which are to be converted on such Mode Change Date at a price of 100% of the principal amount thereof, which contract may be subject to conditions to purchase, shall be provided to the Authority and the Corporation.

If any of the conditions precedent have not been satisfied on or prior to the Mode Change Date, the Fixed Rate Mode shall not become effective and all such Series 2005 Bonds proposed to be changed to the Fixed Rate Mode shall be converted to a Daily Mode; provided that if the change was from an Auction Mode, such Series 2005 Bonds proposed to be changed to the Fixed Rate Mode shall remain in the Auction Mode, the Auction Period shall automatically convert to a seven day period commencing on the failed Mode Change Date and the interest rate borne by such Bonds during the Auction Period commencing on such failed Mode Change Date shall be the Maximum Rate until the first Auction Date after the proposed Mode Change Date.

Tenders

The Bond Indenture provides that with respect to Series 2005 Bonds registered in the Bond Register in the name of Cede & Co. as nominee of DTC, all tenders and deliveries of such Series 2005 Bonds under the provisions of Bond Indenture shall be made pursuant to DTC's procedures as in effect from time to time, and none of the Authority, the Bond Insurer, the Corporation, the Bond Trustee or the Remarketing Agent shall have any responsibility for or liability with respect to the implementation of such procedures.

Optional Tenders of Series 2005 Bonds in the Daily Mode or the Weekly Mode

The holders of Eligible Bonds (as hereinafter defined) in the Daily Mode or the Weekly Mode may elect to have their Series 2005 Bonds (or portions of those Series 2005 Bonds in amount equal to integral multiples of the lowest Authorized Denomination) purchased on any Business Day at a price equal to the Purchase Price: (i) in the case of Series 2005 Bonds in the Daily Mode, upon delivery of an irrevocable telephonic notice of tender to the Remarketing Agent, the Bond Trustee and the Tender Agent not later than 11:00 a.m. Eastern time on the Purchase Date specified by the holder; and (ii) in the case of Series 2005 Bonds in the Weekly Mode, upon delivery of an irrevocable written notice of tender or irrevocable telephonic notice of tender to the Remarketing Agent, the Bond Trustee and the Tender Agent, promptly confirmed in writing to the Tender Agent, not later than 4:00 p.m. Eastern time on a Business Day not less than five (5) days before the Purchase Date specified by the holder in such notice. "Eligible Bonds" are any Series 2005 Bonds other than Liquidity Facility Bonds or Series 2005 Bonds owned by, for the account of, or on behalf of, the Authority or the Corporation or any affiliate of the Corporation.

Such notices of tender shall state the CUSIP number, the series of Series 2005 Bond, Bond number (if the series of the Series 2005 Bond is not registered in the name of the Securities Depository) and the principal amount of the portion of such Series 2005 Bond to be optionally tendered, and the Purchase Date on which such portion is to be purchased.

Mandatory Purchase on Mode Change Date

Series 2005 Bonds to be changed from one Mode to another (other than a change to the Fixed Rate Mode) are subject to mandatory purchase on the Mode Change Date at the Purchase Price. The Tender Agent shall give Immediate Notice of such mandatory purchase to the holders of such Series 2005 Bonds no less than fifteen (15) days prior to the Mandatory Purchase Date. The notice shall state the Mandatory Purchase Date, the Purchase Price and that interest on such Series 2005 Bonds shall cease to accrue from and after the Mandatory Purchase Date. Series 2005 Bonds to be changed to the Fixed Rate Mode are subject to mandatory purchase on the Mode Change Date at the Purchase Price. Not less than the 15th day next preceding the Mode Change Date, the Tender Agent shall mail, in the name of the

Authority, a notice of such proposed change to the holders of the Series 2005 Bonds proposed to be changed to the Fixed Rate stating that the Mode will be changed to the Fixed Rate Mode, the proposed Mode Change Date and that such holder is required to tender such holder's Series 2005 Bonds proposed to be changed to the Fixed Rate for purchase on such proposed Mode Change Date. The failure to give any notice with respect to any Series 2005 Bond shall not affect the validity of the mandatory purchase of any other Series 2005 Bond with respect to which notice was so given. Any notice sent will be conclusively presumed to have been given, whether or not actually received by any holder.

Mandatory Purchase on Expiration Date, Substitute Liquidity Facility Date or Termination Date

On each Substitute Liquidity Facility Date applicable to a Series 2005 Bond, and on the second Business Day preceding each Expiration Date applicable to a Series 2005 Bond, if such Bond is an Eligible Bond it shall be subject to mandatory purchase on such date at the Purchase Price; provided, however, that such Series 2005 Bonds shall not be subject to mandatory purchase on the second Business Day preceding each Expiration Date if on or prior to the 15th day prior to such Expiration Date, the Corporation has furnished to the Bond Trustee an agreement to extend the then current Liquidity Facility. The Tender Agent shall give notice of such mandatory purchase by mail to the holders of the Series 2005 Bonds involved no less than 10 days prior to such Mandatory Purchase Date. The notice shall state the Mandatory Purchase Date, the Purchase Price and that interest on such Series 2005 Bonds shall cease to accrue from and after the Mandatory Purchase Date. The failure to give such notice with respect to any Series 2005 Bond shall not affect the validity of the mandatory purchase of any other Series 2005 Bond with respect to which notice was so given. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any holder.

On the second Business Day preceding each Termination Date applicable to a Series 2005 Bond, if such Series 2005 Bond is an Eligible Bond it shall be subject to mandatory purchase on such date at the principal amount thereof, plus accrued interest, if any, with respect thereto to the Termination Date. The Tender Agent shall give notice of such mandatory purchase by mail to the holders of such Bonds no later than the Business Day after receipt of notice of termination from the Liquidity Facility Provider. The notice shall state the Mandatory Purchase Date, the Purchase Price and that interest on such Series 2005 Bonds shall cease to accrue from and after the Mandatory Purchase Date. The failure to give such notice with respect to any Series 2005 Bond shall not affect the validity of the mandatory purchase of any other Series 2005 Bond with respect to which notice was so given. Any notice mailed will be conclusively presumed to have been given, whether or not actually received by any holder.

The Tender Agent may assume that a Series 2005 Bond is an Eligible Bond unless it has actual knowledge that such Series 2005 Bond is not an Eligible Bond.

General Provisions Relating to Tenders

Payment of Purchase Price. At or before 2:30 p.m. Eastern time on the Purchase Date or Mandatory Purchase Date and upon receipt by the Tender Agent of the aggregate Purchase Price of the tendered Bonds, the Tender Agent shall pay the Purchase Price of such Series 2005 Bonds to the holders by bank wire transfer in immediately available funds.

Inadequate Funds for Tenders. If the funds available for purchases of Eligible Bonds are inadequate for the purchase of all Series 2005 Bonds tendered on any Purchase Date or Mandatory Purchase Date, no purchase shall be consummated and the Tender Agent shall, (1) return all tendered Bonds to the holders thereof, (2) return all moneys deposited in the Remarketing Proceeds Account to the

Remarketing Agent for return to the Persons providing such moneys and (3) return all moneys deposited by the Liquidity Facility Provider to the Liquidity Facility Provider. Failure of the Authority or the Corporation to pay the Purchase Price of Series 2005 Bonds shall not constitute an Event of Default under the Bond Indenture, Loan Agreement or the Master Indenture, and the Bond Insurer shall not be obligated to pay any such amounts under the Policy.

Delivery of Bonds by Tendering Bondholders; Undelivered Bonds Deemed Purchased. All Series 2005 Bonds to be purchased on any date shall be required to be delivered to the principal office of the Tender Agent at or before 10:00 a.m. Eastern time on such Purchase Date or Mandatory Purchase Date. If the holder of any Series 2005 Bond (or portion thereof) that is subject to purchase fails to deliver such Bond to the Tender Agent for purchase on the Purchase Date or Mandatory Purchase Date, and if the Tender Agent is in receipt of the Purchase Price therefor, such Series 2005 Bond (or portion thereof) shall nevertheless be deemed tendered and purchased on the day fixed for purchase thereof and ownership of such Series 2005 Bond (or portion thereof) shall be transferred to the purchaser thereof as provided under "Delivery of Bonds to Purchasers" below. Any holder who fails to deliver such Series 2005 Bond for purchase shall have no further rights thereunder except the right to receive the Purchase Price thereof upon presentation and surrender of said Series 2005 Bond to the Tender Agent. The Tender Agent shall, as to any tendered Series 2005 Bonds that have not been delivered to it: (1) promptly notify the Remarketing Agent of such nondelivery; and (2) instruct the Bond Trustee to place a stop transfer against an appropriate amount of Series 2005 Bonds of the series and maturity involved registered in the name of such holder(s) on the Bond Register. The Bond Trustee shall place such stop(s) commencing with the lowest serial number Series 2005 Bond registered in the name of such holder(s) until stop transfers have been placed against an appropriate amount of Series 2005 Bonds of the series and maturity involved until the appropriate tendered Series 2005 Bonds are delivered to the Tender Agent who shall deliver such Series 2005 Bonds to the Bond Trustee. Upon such delivery, the Bond Trustee shall make any necessary adjustments to the bond registration book.

Delivery of Bonds to Purchasers. As long as the Series 2005 Bonds are held under the book-entry system of DTC, all tenders and deliveries of Series 2005 Bonds will be accomplished under the procedures of DTC. Otherwise, on the Purchase Date or Mandatory Purchase Date, the Tender Agent shall direct the Bond Trustee to execute and deliver all Series 2005 Bonds purchased on any Purchase Date or Mandatory Purchase Date as follows: (1) Series 2005 Bonds purchased and remarketed by the Remarketing Agent shall be registered and made available to the Remarketing Agent by 2:30 p.m. Eastern time in accordance with the instructions of the Remarketing Agent; (2) Series 2005 Bonds purchased with amounts paid by or on behalf of the Liquidity Facility Provider shall be registered and made available in the name of or as directed in writing by the Liquidity Facility Provider on or before 2:30 p.m. Eastern time and become Liquidity Facility Bonds, provided that such Liquidity Facility Bonds cannot be released unless the Bond Trustee has received notice that the Liquidity Facility has been reinstated; and (3) Bonds purchased with amounts paid by or on behalf of the Corporation shall be registered and made available in the name of or as directed in writing by the Corporation on or before 2:30 p.m. Eastern time. Notwithstanding the foregoing, the Tender Agent shall not deliver any such Series 2005 Bonds unless it has received written notice from the Liquidity Provider that the amount available for the purchase of Series 2005 Bonds is at least equal to the aggregate amount of all Series 2005 Bonds then Outstanding (other than the Liquidity Facility Bonds or Series 2005 Bonds converted to an Indexed, Stepped Coupon, Auction, Term or Fixed Rate) plus an amount equal to the Required Stated Amount.

No Purchases or Sales in Certain Circumstances. If (i) payment of any installment of interest payable on any of the Series 2005 Bonds shall not be made when the same shall become due and payable or payment of the principal or the premium, if any, payable on any of the Series 2005 Bonds shall not be

made when the same shall become due and payable, either at maturity, by proceedings for redemption, upon acceleration, through failure to make any payment to any fund and the Bond Insurer has not paid such amount or (ii) any conditions set forth in the Remarketing Agreement to the performance of the Remarketing Agent's obligation thereunder to remarket tendered Series 2005 Bonds shall not have been satisfied, then the Remarketing Agent shall not remarket any Series 2005 Bonds.

No Remarketing to the Authority. The Remarketing Agent shall not remarket any Bonds to the Authority, the Corporation, or any affiliate or guarantor of the Corporation, provided, however, that nothing herein shall prevent the Corporation or any affiliate of the Corporation that is then the Liquidity Facility Provider from purchasing and owning the Series 2005 Bonds as such Liquidity Facility Provider.

Redemption

Optional Redemption

Optional Redemption of Series 2005 Bonds in the Auction Mode. Bonds in the Auction Mode are subject to redemption prior to their Maturity Date by the Authority at the direction of the Corporation, in whole or in part on any Interest Payment Date, at a Redemption Price equal to the principal amount of the Series 2005 Bonds called for redemption, without premium, together with accrued interest, if any, to the Redemption Date.

Optional Redemption of Series 2005 Bonds in the Daily Mode or the Weekly Mode. Any Series 2005 Bonds in the Daily Mode or the Weekly Mode are subject to redemption prior to their Maturity Date, by the Authority at the direction of the Corporation, in whole or in part on any Business Day, at a Redemption Price equal to 100% of the principal amount of Series 2005 Bonds called for redemption, without premium, together with accrued interest, if any, from the end of the preceding Interest Period to the Redemption Date.

Mandatory Bond Sinking Fund Redemption

The following requirements of mandatory Bond Sinking Fund redemption are subject to the provision that any partial redemption of the Series 2005 Bonds as described under the caption "Optional Redemption of Bonds in the Auction Mode" above shall reduce the mandatory scheduled redemption requirements as provided in the Bond Indenture.

The Series 2005 Bonds are subject to mandatory Bond Sinking Fund redemption prior to maturity, and payable at maturity, in the following amounts on the following dates, at the principal amount specified below plus accrued interest to the date fixed for redemption, without premium:

Bond Sinking Fund Redemption Date (November 15)	<u>Amount</u>	Bond Sinking Fund Redemption Date (November 15)	<u>Amount</u>
2006	\$720,000	2021	1,500,000
2007	825,000	2022	1,555,000
2008	860,000	2023	1,615,000
2009	895,000	2024	1,680,000
2010	930,000	2025	1,745,000
2011	1,020,000	2026	1,820,000
2012	1,060,000	2027	1,885,000
2013	1,100,000	2028	1,960,000
2014	1,145,000	2029	2,035,000
2015	1,190,000	2030	2,115,000
2016	1,240,000	2031	2,200,000
2017	1,285,000	2032	2,285,000
2018	1,330,000	2033	2,380,000
2019	1,390,000	2034	2,470,000
2020	1,445,000	2035*	5,320,000

*Maturity

Notwithstanding the foregoing, when any Series 2005 Bonds in the Auction Rate Mode are to be redeemed by mandatory sinking fund redemption, if such November 15 is not an Interest Payment Date for the Auction Rate Mode, then the mandatory sinking fund redemption shall occur on the Interest Payment Date immediately preceding such November 15.

Minimum Redemption Amount

No redemption (other than an optional redemption of Liquidity Facility Bonds) of less than all of the Series 2005 Bonds at the time outstanding will be made unless (i) the aggregate principal amount of such Series 2005 Bonds to be redeemed is equal to or greater than \$100,000 and (ii) the Series 2005 Bonds are redeemed in Authorized Denominations.

Purchase in Lieu of Redemption

In lieu of redeeming Series 2005 Bonds, the Bond Trustee may, at the request of the Corporation and upon the prior written consent of the Bond Insurer, use such funds otherwise available under the Bond Indenture for redemption of Series 2005 Bonds to purchase Series 2005 Bonds identified by the Corporation in the open market for cancellation at a price specified by the Corporation not exceeding the then applicable Redemption Price. In the case of any optional or extraordinary optional redemption or any purchase and cancellation of term Series 2005 Bonds, the Bond Trustee shall apply as a credit against the required Bond Sinking Fund deposits with respect to such term Series 2005 Bonds the amount of such term Series 2005 Bonds in such order as the Corporation elects in writing prior to such optional or extraordinary optional redemption or purchase and cancellation or, if no election is made, in the inverse order thereof. The Bond Trustee is required to cancel all such Series 2005 Bonds purchased pursuant to the Bond Indenture.

Optional Purchase of the Series 2005 Bonds

The Authority and, by their acceptance of the Series 2005 Bonds, the holders, irrevocably grant to the Corporation and any assigns of the Corporation with respect to this right, the option to purchase, at any time and from time to time, any Series 2005 Bond which is redeemable pursuant to the Bond Indenture as described above under the caption "THE SERIES 2005 BONDS – Redemption – Optional Redemption" at a purchase price equal to the Redemption Price therefor. To exercise such option, the Corporation shall give the Bond Trustee a Written Request exercising such option within the time period specified in the Bond Indenture as though such Written Request were a written request of the Authority for redemption, and the Bond Trustee will thereupon give the holders of the Series 2005 Bonds to be purchased notice of such purchase in the manner specified below as though such purchase were a redemption and the purchase of such Series 2005 Bonds shall be mandatory and enforceable against the holders. On the date fixed for purchase pursuant to any exercise of such option, the Corporation will pay the purchase price of the Series 2005 Bonds then being purchased to the Bond Trustee in immediately available funds, and the Bond Trustee will pay the same to the sellers of such Series 2005 Bonds against delivery thereof. Following such purchase, the Bond Trustee shall cause such Series 2005 Bonds to be registered in the name of the Corporation or its nominee and shall deliver them to the Corporation or its nominee. No purchase of the Series 2005 Bonds pursuant to these provisions shall operate to extinguish the indebtedness of the Authority evidenced thereby. Notwithstanding the foregoing, no purchase shall be made pursuant to this paragraph unless the Corporation (i) shall purchase the Series 2005 Bonds with Eligible Moneys, if such Series 2005 Bonds are in the Daily or Weekly Mode, and (ii) shall have delivered to the Bond Trustee and the Authority concurrently therewith (y) a Favorable Opinion of Bond Counsel with respect to such purchase, and (z) the prior written consent of the Bond Insurer.

Notice of Redemption

For a description of the giving of notices while the Series 2005 Bonds are in the book-entry only system, see APPENDIX G – "Book-Entry Only System" attached hereto. Notice of a call for any redemption shall be given by mailing a copy of such notice of redemption by first class mail, postage prepaid not less than 15 or more than 60 days prior to the Redemption Date to the registered owners of the Series 2005 Bonds to be redeemed to the address shown on the Bond Register to the Authority, the Liquidity Facility Provider, the Bond Insurer, the Auction Agent (if any) and the Ratings Agencies then rating the Series 2005 Bonds, provided, however, that failure to give such notice by mailing or to provide such notice to any registered securities depository or a defect in the notice or the mailing as to any Series 2005 Bond will not affect the validity of any proceedings for redemption as to any other Series 2005 Bond with respect to which notice was properly given to the holder thereof. Except for a mandatory Bond Sinking Fund redemption as described above, prior to the date that the redemption notice is first mailed as aforesaid, (a) funds shall be placed with the Bond Trustee to pay the principal of such Series 2005 Bonds (which funds shall be Eligible Moneys if such Series 2005 Bonds bear interest at the Daily Rate or the Weekly Rate), the accrued and unpaid interest thereon to the Redemption Date and the premium, if any, thereon, or (b) such notice of redemption shall state that any redemption is conditional on such funds being deposited with the Bond Trustee on the Redemption Date and that failure to make such a deposit shall not constitute an event of default under the Bond Indenture.

If such conditions are not satisfied or such funds are not so deposited by such date, such Series 2005 Bonds shall not be subject to redemption and the holders thereof shall have the same rights as if no such notice had been given. In such event, the Bond Trustee shall promptly give notice thereof to the owners of such Series 2005 Bonds by first class mail, postage prepaid.

Registration, Transfer and Exchange

For a description of the procedure to transfer ownership of a Series 2005 Bond while in the book-entry only system, see APPENDIX G – "Book-Entry Only System" attached hereto. Subject to the limitations described below, the Series 2005 Bonds, if not then in book-entry only registration, are transferable upon surrender thereof at the Principal Office of the Bond Trustee, duly endorsed by, or if accompanied by a written instrument or instruments of transfer in form and with guarantee of signature satisfactory to the Bond Trustee, and duly executed by the registered owner or such owner's attorney duly authorized in writing. Subject to the limitations described below, any Series 2005 Bond may be exchanged at such times at such Principal Office of the Bond Trustee if accompanied by a written instrument or authorization for exchange in form and with guarantee of signature satisfactory to the Bond Trustee, and duly executed by the registered owner or such owner's attorney duly authorized in writing. No service charge shall be imposed for any exchange or transfer of Series 2005 Bonds. The Authority and the Bond Trustee may, however, require payment by the person requesting an exchange or transfer of Series 2005 Bonds of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto, except in the case of the issuance of a Series 2005 Bond or Bonds for the unredeemed portion of a Series 2005 Bond surrendered for redemption in part.

The Authority, the Bond Trustee and any Paying Agent shall not be obligated to transfer or exchange any Series 2005 Bond of a series after notice calling such Bond or portion thereof for redemption has been given as provided in the Bond Indenture, or during the period of 15 days next preceding the mailing of notice of redemption of such Series 2005 Bonds of the same series and maturity.

SECURITY FOR THE SERIES 2005 BONDS

THE SERIES 2005 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED THEREFOR PURSUANT TO THE BOND INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE SERIES 2005 BONDS. THE SERIES 2005 BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO, DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE SERIES 2005 BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2005 BONDS. NEITHER THE AUTHORITY OR ABAG HAS ANY TAXING POWER.

General

The Series 2005 Bonds, together with interest and premium, if any, with respect thereto are special limited obligations of the Authority payable solely from the revenues and income derived from

the Loan Agreement and Obligation No. 7 (except to the extent paid out of moneys attributable to proceeds of the Series 2005 Bonds, the income from the temporary investment thereof or payments made pursuant to or derived from a mortgage or assignment of leases and rents or credit enhancement device), are and shall always be a valid claim of the owner thereof only against the revenues and income derived from the Loan Agreement and Obligation No. 7, which revenues and income shall be used for no other purpose than to pay the principal installments of, premium, if any, and interest on the Series 2005 Bonds, except as may be expressly authorized otherwise in the Bond Indenture and Loan Agreement. Certain investment earnings on moneys held by the Bond Trustee will be transferred to a Rebate Fund established pursuant to a Tax Exemption Certificate among the Authority, the Bond Trustee and the Corporation. Amounts held in the Rebate Fund are not part of the "trust estate" pledged to secure the Series 2005 Bonds and consequently will not be available to make payments on the Series 2005 Bonds.

The rights of the Authority in and to Obligation No. 7, the amounts payable thereon and the amounts payable to the Authority under the Loan Agreement (other than Unassigned Rights) have been assigned to the Bond Trustee to provide for and to secure the payment of principal of and premium, if any, and interest on the Series 2005 Bonds. Payments on Obligation No. 7 will be made directly to the Bond Trustee.

Each Obligation is a general obligation of the Corporation, the other Members of the Obligated Group and any future Members of the Obligated Group. See "BONDHOLDERS' RISKS – Matters Relating to Enforceability." The Master Indenture provides that payments on any Obligation issued and outstanding thereunder, including Obligation No. 7 and the Swap Obligation, are the joint and several obligation of each Member of the Obligated Group. Notwithstanding uncertainties as to enforceability of the covenant of each Member of the Obligated Group in the Master Indenture to be jointly and severally liable for each Obligation (as described under "BONDHOLDERS' RISKS – 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 various covenants and tests contained in the Master Indenture (including tests relating to the incurrence of Additional Indebtedness) are met.

The Master Indenture permits the Members of the Obligated Group and any future Member of the Obligated Group to incur Additional Indebtedness, all upon the terms and subject to the conditions specified therein. Such Additional Indebtedness may, but need not, be evidenced or secured by an Obligation. See the information under the caption "Summary of Principal Documents – Summary of Certain Provisions of the Master Indenture – Limitations On Additional Indebtedness" in APPENDIX C hereto. Any such Additional Indebtedness may be issued to the Authority and to persons other than the Authority. Except to the extent entitled to the benefits of additional security as permitted by the Master Indenture, all Obligations will be equally and ratably secured by the Master Indenture.

The provisions of the Master Indenture governing the incurrence of Additional Indebtedness limit only the incurrence of liabilities required to be reflected as indebtedness or capitalized leases on the balance sheet of the Obligated Group and guarantees by an Obligated Group Member of liabilities required to be reflected as indebtedness or capitalized leases on a balance sheet of the guaranteed party. Consequently, the Master Indenture does not limit the amount of off-balance sheet liabilities which could be incurred by the Members of the Obligated Group. Similarly, amounts payable on such liabilities would not be treated as debt service for the purposes of the various computations to be made under the Master Indenture. Such liabilities include, without limitation, interest rate swap obligations, operating leases, and other contractual obligations of more than one year.

Financial Guaranty Insurance Policy

The Bond Insurer has committed to issue the Policy which insures the scheduled payment when due of principal of and interest on the Series 2005 Bonds as provided in the Bond Indenture. The Policy does not insure the payment of principal and interest on the Series 2005 Bonds under any optional or mandatory redemption (other than mandatory sinking fund redemption) or any payment of principal of and interest on the Series 2005 Bonds to be made on an accelerated basis or the purchase price of any Series 2005 Bonds tendered for purchase. The Policy extends for the term of the Series 2005 Bonds and cannot be canceled by the Bond Insurer. A specimen copy of the Policy is attached hereto as APPENDIX E. The Sixth Supplemental Master Indenture includes the Bond Insurer Covenants required by the Bond Insurer as a condition to the issuance of the Policy. See "Summary of Principal Documents – Summary of Certain Provisions of the Sixth Supplemental Master Indenture" in APPENDIX C. These covenants may be waived, modified or amended by the Bond Insurer in its sole discretion and without notice to or consent by the Bond Trustee, the Master Trustee or any holder of Series 2005 Bonds or Obligation No. 7.

Existing and Additional Indebtedness

After giving effect to the issuance of the Series 2005 Bonds and the application of the proceeds thereof, the aggregate principal amount of Obligations outstanding under and secured by the Master Indenture will be \$113,050,000. The Obligated Group may in the future incur Additional Indebtedness secured on a parity with Obligation No. 7, the Swap Obligation and the Existing Obligations upon the terms and subject to the conditions provided in the Master Indenture evidenced by additional Obligations, which will not be pledged under the Bond Indenture. See APPENDIX C – "Summary of Principal Documents – Summary of Certain Provisions of the Master Indenture – Limitations On Additional Indebtedness."

Subject to certain conditions set forth in the Master Indenture, such additional Obligations may be entitled to the benefit of security in addition to that provided for other Obligations, including, without limitation, letters or lines of credit, insurance or liens on the Property of the Obligated Group, which additional security or Liens need not be extended to any other Obligation (including, without limitation, Obligation No. 7, the Swap Obligation and the Existing Obligations). See APPENDIX C – "Summary of Principal Documents – Summary of Certain Provisions of the Master Indenture – Limitations On Liens," "– Payment of the Obligations by Obligated Group," "– Gross Revenue Fund; Restrictions on Further Encumbering Gross Revenues" and "– General Covenants as to Corporate Existence, Maintenance of Property, Etc."

Amendments to Master Indenture, Bond Indenture and Loan Agreement

Certain amendments to the Master Indenture may be made without the consent of owners of the Obligations, certain of which amendments would nevertheless require the consent of the insurers and swap providers for the Obligated Group's outstanding bonds and indebtedness. The Master Indenture permits certain other amendments to be made thereto with the consent of such insurers and providers and the owners of not less than a majority of the aggregate principal amount of Obligations outstanding at the time of such amendment. The Master Indenture also permits certain other amendments to be made thereto with the consent of the owners of not less than a majority in principal amount of Obligations affected thereby. The Bond Trustee is the holder of Obligation No. 7. Purchasers of the Series 2005 Bonds should be aware that the covenants contained in the Master Indenture may in the future be changed, diluted or made less restrictive by future amendments to which they do not consent and to which the Bond Trustee, as the owner of Obligation No. 7 does not consent. See "Summary of Principal

Documents – Summary of Certain Provisions of the Master Indenture – Supplemental Master Indentures Not Requiring Consent of Holders of Obligations" and "– Supplemental Master Indentures Requiring Consent of Holders of Obligations" in APPENDIX C hereto.

Certain amendments to the Bond Indenture and Loan Agreement may be made without the consent of the owners of the Series 2005 Bonds. Certain amendments to the Bond Indenture and Loan Agreement may be made with the consent of the owners of not less than a majority of the principal amount of the outstanding Series 2005 Bonds. Certain amendments to the Bond Indenture and Loan Agreement require the consent of the owners of all outstanding Series 2005 Bonds affected by such amendment. See "Summary of Principal Documents – Summary of Certain Provisions of the Bond Indenture – Supplemental Bond Indentures, – Summary of Certain Provisions of the Loan Agreement – Supplements and Amendments to the Loan Agreement" in APPENDIX C hereto.

Gross Revenues

Obligation No. 7 will be the general joint and several obligation of the Members of the Obligated Group and will be equally and ratably secured under the Master Indenture, together with all Obligations issued under the Master Indenture, by a security interest in the Gross Revenues of the Members of the Obligated Group. See "BONDHOLDERS' RISKS – Matters Relating to Enforceability," for a description of, among other matters, possible instances in which such security interest may not have priority or may not be enforceable.

Deed of Trust

Each Member of the Obligated Group will execute a Deed of Trust on its respective facilities to secure its obligations pursuant to the Master Indenture. The Deed of Trust will create a first mortgage lien on all of the real property and fixtures of the Members of the Obligated Group (with the exception of Eskaton's corporate headquarters building). In the event that there is a default under the Master Indenture, the Master Trustee has the right to foreclose on such facilities under certain circumstances. All amounts collected upon foreclosure of the facilities pursuant to the Deed of Trust will be used to pay certain costs and expenses incurred by, or otherwise related to, the foreclosure, the performance of the Master Trustee and/or the beneficiary under the Deed of Trust, and then to pay amounts owing under the Master Indenture.

Debt Service Reserve Fund

Pursuant to the Bond Indenture, a Debt Service Reserve Fund will be established and held by the Bond Trustee for the benefit of the Series 2005 Bonds. At the time of issuance of the Series 2005 Bonds, the Debt Service Reserve Fund Requirement will be \$2,753,166.50. An amount equal to \$184,166.50 of the proceeds of the Series 2005 Bonds will be deposited in the Debt Service Reserve Fund, and an aggregate amount equal to \$2,569,000 will be transferred from the 1998 and 2000 debt service reserve funds for deposit in the Debt Service Reserve Fund.

Under the Bond Indenture, as long as the Policy is in effect and the Bond Insurer has not lost its consent rights, the Bond Insurer may, in its sole discretion, direct the Bond Trustee, as the holder of Obligation No. 7, to consent to amendments to the Bond Indenture, without notice to or consent of the holders of the Series 2005 Bonds. Such amendments could include the deletion of the requirement for a Debt Service Reserve Fund with respect to the Series 2005 Bonds and the release of any monies, surety bond or letter of credit held therein.

Monies on deposit in the Debt Service Reserve Fund will be used by the Bond Trustee whenever, and to the extent that, monies on deposit in the Interest Fund and the Bond Sinking Fund (in that order) are insufficient for the purpose of paying interest on or principal of the Series 2005 Bonds as the same becomes due (either on stated payment dates or on mandatory sinking fund redemption dates). Any draw on the Debt Service Reserve Fund will serve as a credit against the Corporation's required payments under the Loan Agreement. Therefor, a failure of the Corporation to make a debt service payment will not constitute an event of default under the Bond Indenture or the Loan Agreement to the extent monies are available therefor in the Debt Service Reserve Fund.

Qualified Investments deposited in the Debt Service Reserve Fund shall have maturities not longer than ten (10) years and shall have an average life which is no longer than five (5) years. All Investment Securities in the Debt Service Reserve Fund shall be valued at the market value at least quarterly on or before March 1, June 1, September 1 and December 1 (or more frequently as may be reasonably requested by the Corporation) and such valuation shall be reported within thirty (30) days to the Corporation. If at any time the amount on deposit in the Debt Service Reserve Fund is less than 100% of the Debt Service Reserve Fund Requirement as a result of the Debt Service Reserve Fund having been drawn upon, the Bond Indenture requires the Corporation to restore the amount on deposit in the Debt Service Reserve Fund to an amount equal to the Debt Service Reserve Fund Requirement by the deposit with the Bond Trustee of an amount equal to such deficiency in not more than twelve (12) substantially equal monthly installments beginning with the first day of the month after the month in which such draw occurred. For more information concerning the Debt Service Reserve Fund, see "Summary of Principal Documents – Summary of Certain Provisions of the Bond Indenture – Funds – Debt Service Reserve Fund" in APPENDIX C attached hereto.

In lieu of depositing and maintaining monies in the Debt Service Reserve Fund, the Corporation may, with the prior written consent of the Bond Insurer, deliver to the Bond Trustee for deposit in the Debt Service Reserve Fund an irrevocable letter of credit or a surety bond complying with the requirements of the Bond Indenture. See "Summary of Principal Documents — Summary of Certain Provisions of the Bond Indenture — Funds — Debt Service Reserve Fund" in APPENDIX C attached hereto.

Series 2005 Bonds Special Limited Obligation of the Authority

THE SERIES 2005 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED THEREFOR PURSUANT TO THE BOND INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE SERIES 2005 BONDS. THE SERIES 2005 BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO, DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE SERIES 2005 BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PREMIUM, IF ANY, OR

INTEREST ON THE SERIES 2005 BONDS. NEITHER THE AUTHORITY OR ABAG HAS ANY TAXING POWER.

BOND INSURANCE

Disclaimer

The information contained below under this caption "BOND INSURANCE" has been furnished by Radian Asset Assurance Inc. (the "Bond Insurer"), and neither the Authority, the Corporation nor the Underwriter has undertaken any independent investigation of the operations of the Bond Insurer. No representation is made herein as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof. Neither the Authority, the Corporation nor the Underwriter makes any representation as to the ability of the Bond Insurer to make payments in accordance with the Policy. The summary of the terms of the Policy set forth below does not purport to be complete and is qualified in its entirety by reference to the Policy, the form of which appears in APPENDIX E. All capitalized terms used under this caption and not otherwise defined in this Official Statement are used as defined in the Policy. Delivery of this Official Statement shall not create any implication that there has been no change in the affairs or financial condition of the Bond Insurer since the date hereof, or that the information contained or referred to in this section "BOND INSURANCE" is correct as of any time subsequent to the date of this Official Statement.

Description of Financial Guaranty Insurance Policy

A financial guaranty insurance policy (the "Policy") will be issued by Radian Asset Assurance Inc. (the "Bond Insurer") simultaneously with the issuance and delivery of the Series 2005 Bonds. The Policy is noncancelable during its term and provides for the prompt payment of principal of and interest on the Series 2005 Bonds to the extent that the Bond Trustee has not received sufficient funds from the Authority for payment of the Series 2005 Bonds on the "due date." The Bond Insurer is obligated to make the required payment on the later of the due date or the first business day after which the Bond Insurer has received notice from The Bank of New York, as Insurance Trustee (the "Insurance Trustee"), that the Authority has failed to pay amounts due on the Series 2005 Bonds. Under the Policy, the "due date" of the Series 2005 Bonds, when referring to the payment of principal, means the stated maturity date thereof or the date on which payment of principal is due by reason of mandatory sinking fund payments and does not mean any earlier date on which payment is due by reason of any call for redemption, acceleration, or other advancement of maturity, other than in the discretion of the Bond Insurer. With respect to interest on the Series 2005 Bonds, the "due date" means the stated date for payment of interest. The Policy guarantees reimbursement of any recovery of any such payment from a Holder or the Bond Trustee pursuant to a final judgment by any court of competent jurisdiction holding that such payment constituted a voidable preference within the meaning of any applicable bankruptcy law.

Upon the occurrence and continuance of an Event of Default, the Bond Insurer, may, in its discretion, direct the acceleration of the Series 2005 Bonds at a price equal to the principal amount thereof plus accrued interest, or the Bond Insurer may elect to continue to pay principal and interest on the originally scheduled due dates of the Series 2005 Bonds. For specific information on the coverage provided, reference should be made to the Policy that has been reproduced in specimen form in APPENDIX E hereto. The Policy does not insure against nonpayment of principal or interest on the Series 2005 Bonds due to the insolvency, misconduct or negligence of the Bond Trustee. The Policy does not insure the payment of any redemption premium.

Description of Bond Insurer

Radian Asset Assurance Inc. is a financial guaranty insurance company, regulated by the Insurance Department of the State of New York and licensed to do business in all 50 states, the District of Columbia and the United States Virgin Islands. The Bond Insurer was formerly known as "Asset Guaranty Insurance Company." The Bond Insurer changed its corporate name to Radian Asset Assurance Inc. The Bond Insurer has received approval to use its new corporate name in all jurisdictions where it is licensed to do business. As of September 30, 2005, the Bond Insurer had total shareholders' equity of approximately \$1,563,349,000 and total assets of approximately \$2,517,297,000. On October 17, 2005, the board of directors of the Bond Insurer authorized the payment of a dividend to its shareholders of \$100,000,000 in the aggregate, which was paid in two installments in November 2005 and reduced shareholders' equity and total assets of the Bond Insurer by such amount.

The financial information relating to the Bond Insurer presented in this Official Statement was prepared internally by the Bond Insurer, based on accounting principles generally accepted in the United States of America ("GAAP"), and has not been audited by independent auditors. The address of the Bond Insurer's administrative office is 335 Madison Avenue, New York, New York 10017, and its telephone number is 212-983-5859.

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

(i) The Bond Insurer's consolidated financial statements as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004 prepared in accordance with accounting principles generally accepted in the United States of America, together with the accompanying report of the Bond Insurer's independent registered public accounting firm, which expresses an unqualified opinion and includes an explanatory paragraph concerning the merger of Radian Reinsurance Inc. ("Radian Re") with and into the Bond Insurer.

(ii) The Bond Insurer's quarterly unaudited consolidated balance sheet as of March 31, 2005 and unaudited consolidated statement of operations for the three month period then ended, prepared in accordance with accounting principles generally accepted in the United States of America.

(iii) The Bond Insurer's quarterly unaudited consolidated balance sheet as of June 30, 2005 and unaudited consolidated statement of operations for the six-month period then ended, prepared in accordance with accounting principles generally accepted in the United States of America.

(iv) The Bond Insurer's quarterly unaudited consolidated balance sheet as of September 30, 2005 and unaudited consolidated statement of operations for the nine-month period then ended, prepared in accordance with accounting principles generally accepted in the United States of America.

(v) A table presenting selected unaudited balance sheet and income sheet data of the Bond Insurer as of December 31, 2001 (with respect to non-balance sheet information only), 2002 and 2003 and March 31, 2004 on a proforma combined basis as if Radian Re were merged with the Bond Insurer as of the dates indicated, in accordance with accounting principles generally accepted in the United States of America. Though unaudited, the information so filed was derived from the respective audited financial statements of the Bond Insurer and Radian Re as of December 31, 2003 and 2002, and for each of the three years in the period ended December 31, 2003, together with the respective accompanying reports of the Bond Insurer's independent registered public accounting firm.

Additional information regarding the Bond Insurer can be found in the following documents filed by Radian with the Securities and Exchange Commission: (a) in the Annual Report on Form 10-K of Radian for the year ended December 31, 2004 and the Quarterly Reports on Form 10-Q for the periods ended March 31, 2005, June 30, 2005 and September 30, 2005 under the headings: (i) "Safe Harbor Statement under the Private Securities Limitation Reform Act of 1995" (but insofar as it relates to the financial guaranty insurance businesses); (ii) 10-K only, Item 1. Business: "Financial Guaranty Business," "Risk in Force – Financial Guaranty Business," "Customers – Financial Guaranty Business," "Sales and Marketing – Financial Guaranty Business," "Competition – Financial Guaranty Business," "Risk Management – Financial Guaranty," "Ratings" (but only insofar as it relates to the Bond Insurer or Radian Re), "Defaults and Claims" (but only insofar as it relates to the financial guaranty business) and "Regulation – Direct Regulation" (but only insofar as it relates to the financial guaranty business); (iii) in the 10-K only, "Item 6 – Selected Financial Data," "Selected Ratios – Financial Guaranty" and "Other Data – Financial Guaranty"; and (iv) Item 7 Managements' Discussion and Analysis of Financial Condition and Results of Operations "Financial Guaranty Results of Operations" and "Liquidity and Capital Resources" (but only to the extent it relates to the Bond Insurer or Radian Re), and "Critical Accounting Policies"; and (b) the Reports of Form 8-K dated January 20, 2005, February 14, 2005 (as amended March 30, 2005), March 9, 2005, March 17, 2005, April 21, 2005, April 25, 2005, May 27, 2005, June 3, 2005, June 7, 2005, June 21, 2005, June 29, 2005, July 15, 2005, July 21, 2005, July 25, 2005, August 19, 2005, September 29, 2005 and October 20, 2005.

A complete copy of the audited consolidated financial statements and additional information of the Bond Insurer as of December 31, 2004 and 2003, and for each of the three years in the period ended December 31, 2004, together with the accompanying report of the Bond Insurer's independent registered public accounting firm, is available from the Bond Insurer upon written request. Prior year amounts included in such audited consolidated financial statements have been restated to reflect the combined balances and results of operations of the Insurer and Radian Re.

The Bond Insurer is a wholly owned indirect subsidiary of Radian Group Inc. ("Radian"), a publicly owned corporation with its shares listed on the New York Stock Exchange (symbol "RDN"). Radian is a leading credit enhancement provider to the global financial and capital markets, headquartered in Philadelphia. Radian's subsidiaries provide products and services through three business lines: financial guaranty, mortgage insurance and financial services. None of Radian, Radian's other subsidiaries or any of Radian's investors is obligated to pay the debts of or claims against the Bond Insurer. Effective April 30, 2005, Radian's Chief Executive Officer, Frank P. Philipps retired and effective May 5, 2005, Sanford A. Ibrahim became Radian's new Chief Executive Officer and a member of its board of directors. Mr. Ibrahim is a 27-year veteran of the banking and mortgage industries and most recently was the President and Chief Executive Officer of GreenPoint Mortgage Funding, Inc., a residential mortgage lender. In July 2005, the Insurer named Stephen D. Cooke President of the Bond Insurer. Mr. Cooke brings over 20 years of experience in the financial guaranty business and will, together with a senior management task force, focus on improving returns in the financial guaranty business. In July 2005, Radian and the Bond Insurer also named Suzanne Hammett Executive Vice President and Chief Risk Officer. Ms. Hammett has nearly 30 years of experience in senior credit positions at global financial institutions and will focus on further developing Radian's credit culture.

Effective June 1, 2004, the financial guaranty reinsurance affiliate of the Insurer, Radian Re was merged with and into the Bond Insurer. As a result of the merger, the financial guaranty reinsurance business conducted by Radian Re and the direct financial guaranty business conducted by the Insurer is now conducted by the Bond Insurer. As a result of the merger, Radian has greater assets, liabilities and shareholder's equity than it previously had on a stand-alone basis.

One of the Bond Insurer's customers with a right to recapture business previously ceded to the Bond Insurer in connection with the merger of Radian Re into the Bond Insurer and the resulting downgrade of Radian Re from "Aa2" to "Aa3" in May 2004 has agreed, without cost to or concessions by the Insurer, to waive its recapture rights. On November 8, 2004, the remaining primary insurer customer with recapture rights in connection with the May 2004 downgrade by Moody's notified the Bond Insurer of its intent to recapture, at an unspecified date in the near future, approximately \$6.4 billion of par in force ceded to the Bond Insurer, including \$50.6 million of written premiums as of December 31, 2004, \$3.9 million of which would be recorded as an immediate reduction of earned premiums at the time of the recapture, which represents the difference between statutory unearned premiums and GAAP unearned premiums. This return of unearned premiums would also require an increase in policy acquisition costs of \$0.9 million. The amount of future lost premiums due to this recapture will be approximately \$129.7 million, which is made up of the unearned premium balance and the present value of future installment premiums. Based on a projected recapture date of March 31, 2005, the total approximate reduction in pre-tax income for 2005 including the immediate impact would be \$12.3 million. Despite the recapture, the primary insurer customer also informally advised the Bond Insurer that, going forward, the customer intends to continue its reinsurance relationship with the Bond Insurer on the same terms as prior to the recapture. The customer also has the right to recapture an additional \$5.2 billion of par in force ceded to the Insurer, including \$57.8 million of written premiums as of December 31, 2004, \$16.3 million of which would be recorded as an immediate reduction of earned premiums. By letter dated March 8, 2005, this primary insurer customer agreed to waive those recapture rights without cost to or concessions by the Bond Insurer. There are no remaining recapture rights with respect to the May 2004 Moody's downgrade.

The Bond Insurer has a financial strength rating of "AA" (outlook: negative) from Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P"), an insurance financial strength rating of "Aa3" (outlook: stable) from Moody's Investors Service, Inc. ("Moody's) and a claims paying ability rating of "AA" (outlook: negative) by Fitch Ratings Services ("Fitch"). On April 27, 2005, Fitch affirmed the "AA" insurer financial strength rating of the Bond Insurer, but revised its rating outlook for the Bond Insurer from "stable" to "negative." None of the Bond Insurer's customers have the right to recapture business in connection with such ratings action. The ratings from the applicable rating agency reflect only the views of S&P, Moody's and Fitch, respectively, do not constitute a recommendation to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies.

Neither the Bond Insurer nor any of its affiliates makes any representation regarding the Series 2005 Bonds or the advisability of purchasing the Series 2005 Bonds and makes no representation regarding this Official Statement other than as to the information supplied by the Bond Insurer and presented under the heading "BOND INSURANCE" and as set forth in APPENDIX E of this Official Statement. The Bond Insurer's role is limited to providing the coverage set forth in the Policy.

LIQUIDITY FACILITY

General

Pursuant to the Loan Agreement, the Corporation covenants and agrees that at all times while any Series 2005 Bonds bear interest at the Daily or the Weekly Rate, it will maintain a Liquidity Facility for such Series 2005 Bonds in full force and effect. Each Liquidity Facility will be in an amount at least equal to the aggregate principal amount of the Series 2005 Bonds then Outstanding, together with interest accruing thereon (assuming an annual rate of interest equal to the Maximum Rate) for the period

specified in a certificate of the Corporation to be the minimum period specified by the Rating Agencies then rating the Series 2005 Bonds as necessary to maintain the short-term rating of the Series 2005 Bonds with a term of at least 360 days from the effective date thereof. The Series 2005 Bonds will be initially issued in the Auction Mode, and will not be supported initially by a letter of credit, line of credit, standby bond purchase agreement or any other liquidity facility.

Substitute Liquidity Facilities

A Substitute Liquidity Facility may become effective on any Business Day (a "Substitute Liquidity Facility Date"). Not less than fifteen (15) days prior to the proposed Substitute Liquidity Facility Date, the Corporation must have delivered to the Bond Trustee, the Authority and the Bond Insurer (a) a draft of any Substitute Liquidity Facility in substantially final form and a commitment letter with respect thereto and (b) written evidence from each Rating Agency then maintaining a rating on such Series 2005 Bonds of the rating on such Series 2005 Bonds after the Substitute Liquidity Facility Date. On each Substitute Liquidity Facility Date, the Authority, the Bond Insurer, the Bond Trustee and the Bond Trustee's Agent must also receive (i) an opinion of counsel for the Substitute Liquidity Facility Provider regarding the enforceability of the Substitute Liquidity Facility in substantially the form delivered to the Bond Trustee upon execution and delivery of the then-current Liquidity Facility, (ii) an Opinion of Bond Counsel to the effect that the substitution of the then-current Liquidity Facility will not, in and of itself, adversely affect the validity or enforceability of such Series 2005 Bonds or result in the inclusion of interest on such Series 2005 Bonds in gross income for federal income tax purposes, and (iii) the written consent of the Bond Insurer to the Substitute Liquidity Facility, which consent may not be unreasonably withheld.

The Corporation covenants and agrees that at all times while any Series 2005 Bonds are outstanding which bear interest at the Daily Rate or Weekly Rate, if the rating of the Liquidity Facility Provider is lowered by either Moody's, Fitch or S&P below "A-1" or "VMIG-1", respectively, then the Corporation shall, unless otherwise consented to in writing by the Bond Insurer, use its best efforts to obtain a Substitute Liquidity Facility within ninety (90) days of receipt of notice of the downgrade of the rating of the Liquidity Facility Provider.

THE AUTHORITY

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

THE SERIES 2005 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED THEREFOR PURSUANT TO THE BOND INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE SERIES 2005 BONDS. THE SERIES 2005 BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO, DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF

THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE SERIES 2005 BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2005 BONDS. NEITHER THE AUTHORITY OR ABAG HAS ANY TAXING POWER.

PLAN OF FINANCE

General

The proceeds of the Series 2005 Bonds, together with certain other moneys, will be used to (i) advance refund the Refunded Bonds, (ii) pay costs of the Project, (iii) fund a portion of the Debt Service Reserve Fund, and (iv) pay costs and expenses incurred in connection with the issuance of the Series 2005 Bonds, including the costs of obtaining the Policy for the Series 2005 Bonds, and the advance refunding of the Refunded Bonds. For more detailed information regarding the use of proceeds of the Series 2005 Bonds, see the information under the caption "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Advance Refunding of the Refunded Bonds

Series 1998 Certificates. The Authority previously issued the Series 1998 Certificates in the aggregate principal amount of \$12,710,000, of which \$11,945,000 currently remain outstanding. All of the Series 1998 Certificates currently outstanding will be advance refunded with the proceeds of the Series 2005 Bonds. In order to accomplish an advance refunding of and to secure the payment of the interest on the Series 1998 Certificates on or prior to November 15, 2008 and to redeem on November 15, 2008 at a redemption price of 102% of the principal amount thereof, plus the interest accrued thereon to such redemption date, a portion of the proceeds of the sale of the Series 2005 Bonds will be used, together with certain other moneys, to purchase Government Obligations, which will be deposited with and held in a trust fund (the "Series 1998 Escrow Fund") by U.S. Bank National Association, as trustee for the Series 1998 Certificates (the "Series 1998 Bond Trustee") for the benefit of the holders of the Series 1998 Certificates. The Series 1998 Escrow Fund will be established pursuant to an Escrow Deposit and Trust Agreement dated as of December 1, 2005 (the "Series 1998 Escrow Deposit Agreement") between the Authority and the Series 1998 Bond Trustee. The Government Obligations on deposit in such trust fund will be in a principal amount which, together with the interest to be earned thereon without consideration of any reinvestment thereof, and certain cash to be deposited in such trust fund, will be sufficient to pay the principal of and redemption premium and interest on the Series 1998 Certificates in accordance with the provisions of the Series 1998 Escrow Deposit Agreement.

From and after the creation of the Series 1998 Escrow Fund, payment of the principal of, premium and interest on the Series 1998 Certificates will remain the obligation of the Authority until paid or redeemed as provided in the Series 1998 Escrow Deposit Agreement, but such principal, premium and interest will be payable solely from the Series Escrow Fund and will not, under any circumstances, be payable from any other funds of the Authority. After the creation of the Series 1998 Escrow Fund, the holders of the Series 1998 Certificates will not be entitled to or have any rights with respect to the properties

and rights conveyed to the Series 1998 Bond Trustee by the granting clauses of the Series 1998 Bond Indenture (other than the Series 1998 Escrow Fund).

Series 2000 Bonds. CSCDA previously issued the Series 2000 Bonds in the aggregate principal amount of \$19,750,000, of which \$19,270,000 currently remain outstanding. All of the Series 2000 Bonds currently outstanding will be advance refunded with the proceeds of the Series 2005 Bonds. In order to accomplish an advance refunding of and to secure the payment of the interest on the Series 2000 Bonds on or prior to November 15, 2010 and to redeem on November 15, 2010 at a redemption price of 102% of the principal amount thereof, plus the interest accrued thereon to such redemption date, a portion of the proceeds of the sale of the Series 2005 Bonds will be used, together with certain other moneys, to purchase Government Obligations, which will be deposited with and held in a trust fund (the "Series 2000 Escrow Fund") by The Bank of New York Trust Company N.A., as trustee for the Series 2000 Bonds (the "Series 2000 Bond Trustee") for the benefit of the holders of the Series 2000 Bonds. The Series 2000 Escrow Fund will be established pursuant to an Escrow Deposit and Trust Agreement dated as of December 1, 2005 (the "Series 2000 Escrow Deposit Agreement") between the CSCDA and the Series 2000 Bond Trustee. The Government Obligations on deposit in such trust fund will be in a principal amount which, together with the interest to be earned thereon without consideration of any reinvestment thereof, and certain cash to be deposited in such trust fund, will be sufficient to pay the principal of and redemption premium and interest on the Series 2000 Bonds in accordance with the provisions of the Series 2000 Escrow Deposit Agreement.

From and after the creation of the Series 2000 Escrow Fund, payment of the principal of, premium and interest on the Series 2000 Bonds will remain the obligation of the CSCDA until paid or redeemed as provided in the Series 2000 Escrow Deposit Agreement, but such principal, premium and interest will be payable solely from the Series 2000 Escrow Fund and will not, under any circumstances, be payable from any other funds of the CSCDA. After the creation of the Series 2000 Escrow Fund, the holders of the Series 2000 Bonds will not be entitled to or have any rights with respect to the properties and rights conveyed to the Series 2000 Bond Trustee by the granting clauses of the Series 2000 Bond Indenture (other than the Series 2000 Escrow Fund).

Interest Rate Swap Transaction

In connection with the issuance of the Series 2005 Bonds, the Corporation anticipates entering into an interest rate exchange agreement (the "Series 2005 Swap Agreement") with Wachovia Bank, National Association (the "Counterparty"). In general, the Swap Agreement would provide that, subject to the terms thereof, the Corporation will pay a fixed rate and receive a floating rate determined pursuant to a formula based on one-month LIBOR plus a fixed constant, based on an aggregate notional amount equal initially to the Series 2005 Bonds, declining annually beginning in 2006 in amounts equal to the anticipated amortization of the Series 2005 Bonds. The Swap Agreement would terminate on the final maturity date of the Series 2005 Bonds.

Under certain circumstances, the Swap Agreement is subject to termination in whole or in part prior to its scheduled termination dates and prior to the maturity of the Series 2005 Bonds. Following any such termination, either the Corporation or the Counterparty may then owe a termination payment to the other, depending upon market conditions then prevailing. In the event of an early termination of the Swap Agreement, there can be no assurance that (i) the Corporation will receive any termination payment payable to it by the Counterparty, (ii) the Corporation will have sufficient amounts to pay a termination payment payable by it to the Counterparty, or (iii) the Corporation will be able to obtain a replacement swap agreement with comparable terms. Payment due upon early termination may be substantial.

The obligation of the Corporation to make scheduled payments under the Swap Agreement, as well as certain payments due upon the termination of the Swap Agreements prior to the stated termination date thereof, is secured by the Corporation's Obligation No. 8 (the "Swap Obligation") issued under the terms of the Sixth Supplemental Master Indenture on a parity with all other Obligations issued under the Master Indenture, including, without limitation, Obligation No. 7. Certain of the obligations of the Corporation under the Swap Agreement will be insured by Radian Asset Assurance Inc. pursuant to a swap insurance policy. See "BONDHOLDERS' RISKS – Interest Rate Swap and Other Hedge Risk" herein.

The agreement by the Counterparty to pay certain amounts to the Corporation under the Swap Agreement will not alter or affect the obligation of the Corporation under the Loan Agreement or of the Obligated Group under the Master Indenture and Obligation No. 7 to pay the principal of, interest on, and premium, if any, on any of the Series 2005 Bonds. Neither the owners of the Series 2005 Bonds nor any other person other than the Corporation will have any rights under the Swap Agreement or against the Counterparty.

ESTIMATED SOURCES AND USES OF FUNDS

The estimated sources and uses of funds of the Series 2005 Bonds are as follows:

Sources of Funds

Proceeds of Series 2005 Bonds	\$49,000,000
Funds Held by Series 1998 Bond Trustee	1,551,000
Funds Held by Series 2000 Bond Trustee	<u>1,683,000</u>
Total Sources of Funds	<u>\$52,234,000</u>

Uses of Funds

Deposit to Advance Refund the Series 1998 Certificates	\$12,986,794
Deposit to Advance Refund the Series 2000 Bonds	23,262,989
Deposit to Debt Service Reserve Fund	2,753,166
Deposit to Project Fund	10,240,284
Issuance Expenses ⁽¹⁾	<u>2,990,767</u>
Total Uses of Funds	<u>\$52,234,000</u>

⁽¹⁾ Including, without limitation, the cost of the Policy and the estimated fees and expenses, as applicable, of the Underwriter, Underwriter's Counsel, Bond Counsel, Obligated Group's Counsel, the Authority, the Authority's Counsel, the auditors, the Bond Trustee, the Master Trustee, the Rating Agency and other miscellaneous costs incurred in connection with the issuance of the Series 2005 Bonds, and the advance refunding of the Refunded Bonds.

ESTIMATED ANNUAL DEBT SERVICE REQUIREMENTS⁽¹⁾

The following table sets forth the amounts required in each calendar year for the payment of principal (at maturity or by mandatory redemption) of and interest on Obligation No. 7 and the Existing Obligations of the Obligated Group.

Calendar Year	Obligation No. 7 ⁽²⁾		Existing Obligations ⁽³⁾⁽⁴⁾		Total Debt Service
	Principal	Interest	Principal	Interest	
2006	\$720,000	\$1,784,927	\$1,450,000	\$3,602,335	\$7,557,262
2007	825,000	1,948,098	1,500,000	3,517,885	\$7,790,983
2008	860,000	1,914,809	1,250,000	3,441,305	\$7,466,114
2009	895,000	1,880,108	1,650,000	3,355,825	\$7,780,933
2010	930,000	1,843,995	1,400,000	3,270,697	\$7,444,692
2011	1,020,000	1,752,746	1,750,000	3,178,410	\$7,701,155
2012	1,060,000	1,712,813	1,600,000	3,083,973	\$7,456,785
2013	1,100,000	1,671,314	1,950,000	2,980,275	\$7,701,589
2014	1,145,000	1,628,249	1,750,000	2,876,212	\$7,399,461
2015	1,190,000	1,583,422	2,150,000	2,762,149	\$7,685,571
2016	1,240,000	1,536,833	2,250,000	2,635,965	\$7,662,798
2017	1,285,000	1,488,287	2,150,000	2,511,204	\$7,434,492
2018	1,330,000	1,437,980	2,500,000	2,376,105	\$7,644,085
2019	1,390,000	1,385,910	2,350,000	2,238,843	\$7,364,753
2020	1,445,000	1,331,492	2,700,000	2,092,299	\$7,568,791
2021	1,500,000	1,274,920	2,650,000	1,940,033	\$7,364,953
2022	1,555,000	1,216,195	3,000,000	1,776,351	\$7,547,546
2023	1,615,000	1,155,317	3,150,000	1,599,829	\$7,520,145
2024	1,680,000	1,092,089	3,150,000	1,420,092	\$7,342,182
2025	1,745,000	1,026,317	3,450,000	1,229,644	\$7,450,962
2026	1,820,000	958,001	3,550,000	1,029,211	\$7,357,211
2027	1,885,000	886,748	3,800,000	817,692	\$7,389,440
2028	1,960,000	812,950	3,950,000	595,448	\$7,318,398
2029*	2,035,000	736,216	8,950,000	191,588	\$11,912,804
2030	2,115,000	656,546	0	0	\$2,771,546
2031	2,200,000	573,743	0	0	\$2,773,743
2032	2,285,000	487,613	0	0	\$2,772,613
2033	2,380,000	398,156	0	0	\$2,778,156
2034	2,470,000	304,979	0	0	\$2,774,979
2035*	<u>5,320,000</u>	<u>208,278</u>	<u>0</u>	<u>0</u>	<u>\$5,528,278</u>
TOTAL ⁽⁵⁾	\$49,000,000	\$36,689,046	\$64,050,000	\$54,523,370	\$204,262,416

⁽¹⁾ The calculations of estimated annual debt service requirements set forth in this table were not calculated in accordance with the Master Indenture. The Corporation believes that the amounts set forth in this table, as calculated with the assumptions set forth in the footnotes to this table, present a reasonable estimate of the Corporation's estimated annual debt service requirements.

⁽²⁾ As described under the caption "PLAN OF FINANCE," the Corporation has entered into the Series 2005 Swap Agreement. For purposes of this table, Obligation No. 7 bears interest at the fixed rate per annum payable by the Counterparty under the Swap Agreement and the interest figures include annual auction fees.

⁽³⁾ The Corporation has entered into three interest rate swaps in connection with the SAVRS Bonds, which constitute the only Existing Obligations. For purposes of this table, interest on the portion of the SAVRS Bonds subject to the interest rate swaps has been assumed to be 5.75% per annum and interest on the remainder of the SAVRS Bonds has been assumed to be 5.30%.

⁽⁴⁾ Existing Obligations does not include debt service on the Refunded Bonds.

⁽⁵⁾ The totals may not be exact due to rounding.

* It is anticipated that a portion of this payment will be made using moneys from the Debt Service Reserve Fund.

BONDHOLDERS' RISKS

General

The Series 2005 Bonds are payable solely from the payments to be made by the Corporation pursuant to the Loan Agreement and payments to be made by the Obligated Group pursuant to the Master Indenture and Obligation No. 7. No representation or assurance can be made that such revenues, as presently estimated or otherwise, will be realized by the Corporation in the amounts necessary to make payments in amounts sufficient to pay the principal of and interest on the Series 2005 Bonds and or by the Obligated Group to make any payments that may be required pursuant to the Master Indenture and Obligation No. 7. The amount of the Corporation's and the other Members of the Obligated Group's future revenues and expenses is subject to, among other things, the capabilities of the management of the Corporation, the other Members of the Obligated Group, and any future Members of the Obligated Group, receipt of grants and contributions, imposition of government wage and price controls, changes in social security eligibility or payments, changes or restrictions in the Medicare/Medicaid programs and future economic and other conditions which are unpredictable and which may affect the Corporation's, the other Members of the Obligated Group's and any future Members of the Obligated Group's revenues and thereby payment of principal of and interest on the Series 2005 Bonds and any payments that may be required pursuant to the Master Indenture and Obligation No. 7.

Limited Obligations

THE SERIES 2005 BONDS ARE SPECIAL LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE REVENUES PLEDGED THEREFOR PURSUANT TO THE BOND INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF THEIR MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE SERIES 2005 BONDS. THE SERIES 2005 BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON, AND ANY REDEMPTION PREMIUM WITH RESPECT THERETO, DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE SERIES 2005 BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE SERIES 2005 BONDS. NEITHER THE AUTHORITY OR ABAG HAS ANY TAXING POWER.

Bond Insurance

The Bond Insurance Policy does not insure the principal of or interest on the Series 2005 Bonds coming due by reason of acceleration, optional redemption or optional or mandatory tender, nor does it insure the payment of a redemption premium, if any, payable upon the redemption of the Series 2005 Bonds.

Under no circumstances, including the situation in which the interest on the Series 2005 Bonds becomes subject to federal taxation for any reason, can the Series 2005 Bonds be accelerated without the consent of the Bond Insurer, so long as the Bond Insurer performs its obligations under the Insurance Policy. Furthermore, so long as the Bond Insurer performs its obligations under the Insurance Policy, the Bond Insurer may direct, and must consent to, any remedies that the Bond Trustee exercises under the Bond Indenture.

There can be no assurance that the Bond Insurer will be financially able to meet its contractual obligations under the Bond Insurance Policy. In the event that the Bond Insurer is unable to make payments of principal and interest on the Series 2005 Bonds as such payments become due, the Series 2005 Bonds are payable solely from moneys received by the Bond Trustee pursuant to the Loan Agreement, the Master Indenture and Obligation No. 7. See the information under the caption "BOND INSURANCE" herein for further information concerning the Bond Insurer and the Policy. Such information was provided by the Bond Insurer, and no representation is made as to the adequacy or accuracy thereof.

In the event that Bond Insurer is required to pay principal of or interest on the Series 2005 Bonds, no representation or assurance is given or can be made that such event will not adversely affect the market price for or marketability of the Series 2005 Bonds.

The ratings on the Series 2005 Bonds are dependent upon the ratings of the Bond Insurer. The Bond Insurer's current ratings are predicated upon, among other things, a level of reserves in excess of the levels required by the various state agencies regulating insurance companies. The level of reserves maintained by the Bond Insurer could change over time and this could result in a downgrading of the ratings on the Series 2005 Bonds. The Bond Insurer is not contractually bound to maintain its present level of reserves in the future. See the information under the caption "RATINGS" herein.

Additions to the Obligated Group

The Corporation and EGRL are the only current Members of the Obligated Group. It is anticipated that EVGV will become a Member of the Obligated Group concurrently with the issuance of the Series 2005 Bonds. Upon satisfaction of certain conditions in the Master Indenture, other entities may become Members of the Obligated Group. See APPENDIX C – "Summary of Principal Documents – Summary of Certain Provisions of the Master Indenture – Joining the Obligated Group." Management of the Obligated Group currently has no plans to add additional members to the Obligated Group. However, if and when new Members are added, the Obligated Group's financial situation and operations will likely be altered.

Failure to Achieve and Maintain Sufficient Occupancy; Uncertainty of Revenues

The ability of the Corporation, the other Members of the Obligated Group and any future Members of the Obligated Group to generate sufficient revenues depends in large part upon their ability to attract sufficient numbers of residents to their respective facilities in order to achieve and then to maintain substantial occupancy throughout the term of the Series 2005 Bonds. The ability of the Corporation, the other Members of the Obligated Group and any future Members of the Obligated Group to achieve, and then to maintain, substantial occupancy depends to some extent on factors outside their control.

The success of the Corporation's, the other Members of the Obligated Group's, and any future Members of the Obligated Group's facilities is dependent on the maintenance of high future occupancy

levels at their facilities by eligible residents who will be able to pay the fees charged, the capabilities of the management of the facilities and future economic and other conditions which are unpredictable, including the availability of Medicare and Medicaid. See "BONDHOLDERS' RISKS – Present and Prospective Federal and State Regulation." Any of these factors may affect revenues and payment of debt service on the Series 2005 Bonds. No representation or assurance can be made that revenues will be realized by the facilities in amounts sufficient to make the required payments on the Series 2005 Bonds.

Existing Operations and Possible Increased Competition

The revenues and expenses associated with the operation of the Obligated Group's existing nursing care and other residential facilities will be affected by further events and conditions relating generally to, among other things, government regulations, third-party reimbursement programs, demand for skilled nursing home and assisted living and residential services, the ability of the Corporation, the other Members of the Obligated Group and any future Members of the Obligated Group to provide the services required by residents, economic developments in the affected service areas, competition, rates and costs. The facilities owned by the Obligated Group are subject to substantial competition from facilities providing similar or comparable services. Such competition likely will inhibit the extent to which the Corporation, the other Members of the Obligated Group and any future Member of the Obligated Group will be able to raise charges and maintain or increase admissions. There can be no assurance that additional competing facilities will not be constructed in the future.

Sales of Homes

Prospective residents of the facilities of the Obligated Group and any future Members of the Obligated Group may encounter difficulty in selling their current homes due to national and local economic conditions impairing the sale of residential real estate and, therefore, may not have sufficient assets to pay monthly fees.

Utilization Demand

Several factors could, if implemented, affect demand for services offered at the facilities of the Obligated Group, including: (i) efforts by insurers and governmental agencies to reduce utilization of nursing home and long-term care facilities by such means as preventive medicine and home health care programs; (ii) advances in scientific and medical technology; and (iii) increased or more effective competition from skilled nursing homes, assisted living facilities and long-term care facilities now or hereafter located in the respective service areas of the facilities of the Members of the Obligated Group.

Nature of Facilities

The Obligated Group's facilities are not comprised of general purpose buildings and generally would not be suitable for industrial, other residential or commercial use. Consequently, it could be difficult to find a buyer or lessee for such facilities and, upon any default, the Master Trustee may not realize the amount of the outstanding Series 2005 Bonds or any other Additional Indebtedness outstanding from the sale or lease of such facilities if it were necessary to proceed against such facilities, pursuant to a judgment, if any, against the Members of the Obligated Group, including in the event of foreclosure under the Deed of Trust.

Present and Prospective Federal and State Regulation

General. The operations of the Obligated Group, like other health care facilities throughout the country, will be affected on a day-to-day basis by numerous legislative, regulatory and industry-imposed operations and financial requirements which are administered by a variety of federal and state governmental agencies as well as by self-regulatory associations and commercial medical insurance reimbursement programs. It is impossible, however, to predict the effect of any such legislation and regulation on the operations or financial condition of the Obligated Group's facilities.

Nursing care facilities, including those of the Obligated Group, are subject to numerous licensing, certification, accreditation, and other governmental requirements. These include, but are not limited to, requirements relating to Medicare participation and payment, requirements relating to state licensing agencies, private payors and accreditation organizations and certificate of need approval by state agencies of certain capital expenditures. Sheltered and assisted living facilities, including those of the Obligated Group, 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 Members of the Obligated Group. An adverse determination could result in a loss, fine or reduction in the Obligated Group's scope of licensure, certification or accreditation, could affect the ability to undertake certain expenditures or could reduce the payment received or require the repayment of the amounts previously remitted. The Members of the Obligated Group currently anticipate no difficulty in renewing or continuing currently held licenses, certifications and accreditations.

Medicare and Medicaid Programs

Medicare and Medicaid are the commonly used names for reimbursement or payment programs governed by certain provisions of the federal Social Security Act. Medicare is an exclusively federal program and Medicaid is a combined federal and state program. Medicare provides certain health care benefits to beneficiaries who are 65 years of age or older, disabled or qualify for the End Stage Renal Disease Program. Medicare Part A covers inpatient hospital services and certain other services, and Medicare Part B covers physician services, medical supplies and durable medical equipment. Medicaid is designed to pay providers for care given to the medically indigent and others who receive federal aid. Medicaid is funded by federal and state appropriations and administered by the various states.

Medicare. Health care providers, including the Members of the Obligated Group, may participate in the Medicare program subject to certain conditions of participation and acceptance of a provider agreement by the federal Secretary of Health and Human Services ("HHS"). Only covered services, upon the satisfaction of certain criteria, are eligible for Medicare reimbursement. Medicare Part A reimburses for certain post-hospital inpatient skilled nursing and rehabilitation care for up to 100 days during the same spell of illness. The federal government has implemented a Prospective Payment System ("PPS") for Medicare reimbursement, to shift more of the financial risk of the cost of long-term care from the federal government to the provider. The prior system was a retrospective cost-based system. The PPS is based on historical costs and resource utilization of the residents. Geographic variations in labor costs are also considered. The PPS applies to cost reporting periods beginning on or after July 1, 1998.

Medicaid. The Medicaid payment system varies by state. Amounts paid under any of these systems are generally lower than the costs of providing the services. While federal law imposes certain basic requirements on the individual Medicaid plans developed by the states, each state has developed its own Medicaid payment system. The methodologies for reimbursing providers and practitioners under each state's system vary greatly among the individual states.

Pursuant to the Medicaid program, the federal government supplements funds provided by the various states for medical assistance to the medically indigent. Payment for such medical and health services is made to nursing facilities in an amount determined in accordance with procedures and standards established by state law under federal guidelines. Payment for Medicaid patients is subject to appropriation by the respective state legislatures of sufficient funds to pay the incurred patient obligations. Delays in appropriations and state budget deficits which occur from time to time create a risk that payment of services to Medicaid patients will be withheld or delayed. Future actions by federal and state governments relative to Medicaid limiting or reducing the total amount of funds available, or otherwise restructuring Medicaid, may also decrease or eliminate the amount of reimbursements available to the Obligated Group. Congress is considering further reductions in federal funding of health care. No assurance can be given as to the timing, nature or extent of any further reductions.

In order to participate in the Medicaid program, the Obligated Group must comply with extensive federal, state and local laws and regulations as they apply to skilled nursing care, assisted living and residential services. Facilities offering skilled nursing care in particular are subject to strict federal and state regulation regarding standards of care. Failure to comply with any of these regulations may have a material adverse effect on the obligations of the Obligated Group. This includes reporting and other technical rules as well as broadly stated prohibitions regarding improper inducements for referrals and payment of kickbacks in connection with the purchase of goods and services. Violations of prohibitions against improper inducements and payments may result in civil and criminal sanctions and penalties. Civil penalties range from monetary fines which may be levied on a per-violation basis to temporary or permanent exclusion from the Medicare and Medicaid programs.

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 would have a material adverse effect on the operations and financial condition of the Obligated Group. 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 Obligated Group believes that it is currently in material compliance with the Anti-Kickback Law. However, in light of the narrowness of the safe harbor regulations and the scarcity of case law interpreting the Anti-Kickback Law, there can be no assurances that the Obligated Group will not be found to have violated the Anti-Kickback Law, and, if so, whether any sanction imposed would have a material adverse effect on the operations of facilities owned by the Members of the Obligated Group.

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 provider, with limited exceptions. "Designated health services" include the following: clinical laboratory services; physical therapy services; occupational therapy services; radiology services, including magnetic resonance imaging, computerized axial tomography scans, and ultrasound services; radiation therapy services and supplies; durable medical equipment and services; parenteral and enteral nutrients, equipment and supplies; prosthetics, orthotics, and prosthetic devices and supplies; home health services; outpatient prescription drugs; and inpatient and outpatient hospital services. The sanctions under the Stark law include denial and refund of payments, civil monetary penalties and exclusions from the Medicare and Medicaid programs.

Management of the Obligated Group believes that they currently are in material compliance with the Stark provisions. However, in light of the scarcity of case law interpreting the Stark provisions, there can be no assurances that any Member of the Obligated Group will not be found to have violated the Stark provisions, and if so, whether any sanction imposed would have a material adverse effect on the operations or the financial condition of the Obligated Group as a whole.

False Claims Act/Qui Tam Actions. Medicare requires that extensive financial information be reported on a periodic basis and in a specific format or content. These requirements are numerous, technical and complex and may not be fully understood or implemented by billing or reporting personnel. With respect to certain types of required information, the False Claims Act and the Social Security Act may be violated by mere negligence or recklessness in the submission of information to the government even without any intent to defraud. New billing systems, new medical procedures and procedures for which there is not clear guidance may all result in liability. The penalties for violation include criminal or civil liability and may include, for serious or repeated violations, exclusion from participation in the Medicare program.

The False Claims Act provides that an individual may bring a civil action for a violation of the Act. These actions are referred to as Qui Tam actions. In this way, an employee would be able to sue on behalf of the U.S. government if he/she believes that the healthcare entity has committed fraud. If the government proceeds with an action brought by this individual, then he/she could receive as much as 25% of any money recovered. The potential exists that a Qui Tam action could be brought against the Corporation or any other Member of the Obligated Group.

State Reimbursement and Regulatory Issues — California Licensure and Certificate of Need

Skilled Nursing Facilities. SNFs provide skilled nursing care and supportive care to patients whose primary need is for skilled nursing care on an extended basis. SNFs in California are licensed and inspected by the State Department of Health Services. Operational requirements for SNFs include the maintenance of a theft and loss program and transfer policies and protocols, the provision of notice to patients of scheduled room rate increases, and compliance with regulations regarding, among other things, staffing minimums and physical plant standards. In addition, SNFs must maintain an approved personnel certification and training program meeting standards established by the State Department of Health Services and must provide an activity program to facility patients.

The State Department of Health Services may suspend or revoke a SNF's license on the grounds of: (a) violation of any applicable statute or regulation with respect to SNFs; (b) aiding, abetting or permitting the violation of any such applicable law; (c) conduct inimical to the public health, morals, welfare or safety of California residents in the maintenance and operation of the premises or services for

which a SNF license is issued; or (d) conviction of the licensee at any time during licensure of a crime involving a violation of any law which is substantially related to the qualifications or duties of the licensee or which is substantially related to the functions of the business for which the license was issued. Further, whenever circumstances exist indicating that continued management of a SNF by the current licensee would present a substantial probability or imminent danger of serious physical harm or death to facility patients or there exists in the SNF a condition in substantial violation of any applicable statute or regulation with respect to SNFs, or the SNF exhibits a pattern or practice of habitual violation of any such applicable law, or the SNF is closing or intends to terminate operation as a licensed SNF and adequate arrangements for patient relocation have not been made at least 30 days prior to the closing or termination, the State Department of Health Services may petition the Superior Court for the county in which the SNF is located for an order appointing a receiver to temporarily operate the SNF.

Residential Care Facilities for the Elderly. Residential care facilities for the elderly ("RCFEs") are licensed housing arrangements where varying levels and intensities of care and supervision, protective supervision, or personal care are provided to residents based upon their varying needs. Such facilities generally provide a range of services that stop just short of medical care, including meals, shelter, laundry, transportation, supervision with medications and limited assistance with the activities of daily living. RCFEs must comply with certain conditions of licensure and operation, as required and enforced by the State Department of Social Services, including, among other things, maintenance of a theft and loss program, provision of certain enumerated basic services and preparation of resident records.

A RCFE may have its license suspended or revoked for the following reasons: (a) violation of any applicable statute or regulation with respect to RCFEs; (b) aiding, abetting or permitting the violation of any such applicable law; (c) conduct inimical to the health, morals, welfare or safety of either an individual in or receiving services from the RCFE or California residents; or (d) conviction of a licensee at any time during licensure of a crime other than a minor traffic violation. Also, the State Department of Social Services may require a RCFE to remove a resident who has a health condition which cannot be cared for within the limits of a RCFE license or requires inpatient care in a health facility as determined by the Department.

Independent Living Apartments. Independent living apartments are not currently subject to a licensure requirement in California. As a result, there is no legal definition of this type of facility. Such facilities tend to provide independent living accommodations, communal meals, housekeeping and concierge services. Independent living facilities neither offer nor arrange for assistance with daily living activities, health assessments or continuing intermittent health care services.

Continuing Care Contracts. The Department of Social Services governs and monitors the provision of continuing care under "continuing care" contracts. Continuing care contracts are agreements between a person sixty years or older and a provider whereby the provider undertakes the responsibility for providing personal, nursing, medical and health services and long-term board and lodging for a person's lifetime, in exchange for any prepayment or transfer of property prior to such services actually being rendered, whether or not such prepayments or transfers are supplemented with other payments. In accordance with California law, a provider may not enter into a continuing care contract without a certificate of authority issued by the Department of Social Services. The certificate of authority is required in addition to the licensure requirements governing the component parts of a continuing care retirement community ("CCRC"), such as skilled nursing, or residential care services.

Each applicant for a certificate of authority to enter into continuing care contracts as a provider is subject to review by the Department of Social Services of its financial statements, projected annual

income statements, marketing plans and escrow agreements regarding reserved funds. In addition, providers must produce a copy of the proposed forms of continuing care contract, which must comply with certain specific requirements enumerated by statute. Furthermore, providers of continuing care services must comply with operational requirements regarding, inter alia, advertising, construction, and cancellation of continuing care contracts. Disclosure requirements continue post-certification, as a provider of continuing care services must file an annual report, including audited financial statements, within four months after the end of the provider's fiscal year.

Certificates of authority may be suspended, limited or revoked for cause for reasons, including failure to comply with applicable licensing and regulatory requirements, failure to maintain minimum reserve requirements and failure to file the required annual report. In addition, if a provider of continuing care services fails to establish or depletes the required reserves so that the protection of residents is placed in serious jeopardy, the Department of Social Services may petition the superior court in the county in which such facility is located for an order appointing an administrator to assume possession and management of the facility and its assets. Furthermore, if a provider fails to comply with certain ongoing disclosure requirements, or at any other time when the Department of Social Services has reason to believe the provider is insolvent (or in imminent danger of becoming insolvent) or may be unable to perform its obligations pursuant to its continuing care contracts, the Department may require the provider to submit a financial plan detailing the method of overcoming the deficiencies. Finally, when necessary to secure performance of all obligations of a provider to provide continuing care services to residents, the Department of Social Services may record a notice(s) of a lien on behalf of residents. Such a lien shall attach to all real property owned or acquired by the provider during the pendency of the lien, provided such property is not exempt from the execution of a lien and is located within the county in which the lien is recorded. The lien shall have the force, effect and priority of a judgment lien.

Management of the Obligated Group believes that the Obligated Group is in compliance with all relevant statutory and regulatory requirements. Failure to comply with any of the foregoing regulations may have a material adverse effect on the obligations of the Obligated Group and any future Members of the Obligated Group.

Certificate of Need. SNFs and RCFEs are not subject to a certificate of need requirement in California.

Management of the Obligated Group believes that its California facilities are in compliance with state licensure requirements. Any failure to maintain compliance could have a material adverse effect on the operations of the Obligated Group.

Medi-Cal Reimbursement. Medi-Cal, California's Medicaid program, covers nursing facility services (including SNFs) which are preauthorized by a Medi-Cal consultant. Up to one year of care from the date of admission may be authorized. Reauthorizations may be granted for up to one year. The attending physician must recertify the medical necessity of care once every 60 days and must visit the patient at least once every 30 days during the first 90 days of nursing facility care. After 90 days, a Medi-Cal consultant may approve up to 60 days between visits. A leave of absence is limited to 18 days per calendar year, except that up to 12 additional days of leave per calendar year may be approved if the request for additional days is in accordance with the patient's care plan and is appropriate to the patient's physical and mental well-being.

Medi-Cal pays for nursing facility services in accordance with a prospective flat rate system based upon facilities' annually reported cost data, including fixed or capital-related costs, property taxes and labor costs. A specific per diem rate applies to each of six different levels of service. Each such rate

reflects the median rate for facilities providing that level of service and may vary based upon geographic location and facility bed size. The State Department of Health Services may negotiate all-inclusive nursing facility rates which provide for additional Medi-Cal covered services that are medically necessary, provided that such negotiated rates are less than the cost of the covered services if billed separately. Payment for a reserved bed during a patient's leave of absence is the same as the maximum daily payment rate less a specified amount for savings on food costs.

The rate methodology under the Medi-Cal program could adversely affect the Obligated Group's and any future Member of the Obligated Group's revenues should the cost of its California facilities' provision of nursing services exceed the median rate for the applicable level of service.

Regulatory Compliance

The above state licensing requirements are subject to change, and there can be no assurance that the Obligated Group's facilities will continue to be able to maintain necessary licenses and certificates of need or that they will not incur substantial costs in doing so. Failure to comply with such requirements could result in the loss of the right to payment by Medicare or Medicaid as well as the right to conduct the business of the licensed entity. Further, the facilities operated by the Obligated Group are subject to periodic inspection by governmental and other regulatory authorities to assure continued compliance with various standards and to provide for their continued licensing under state law and certification under the Medicare and Medicaid programs.

From time to time, the Obligated Group's facilities receive notices from federal and state regulatory agencies relating to alleged deficiencies for failure to comply with all components of the licensure regulations. While the Obligated Group endeavors to comply with all applicable regulatory requirements, from time to time certain of the Obligated Group's facilities have been subject to various sanctions and penalties as a result of deficiencies alleged by the Health Care Financing Administration ("HCFA"), an agency of the United States Department of Health and Human Services ("HHS") or state survey agencies. While in certain instances denial of certification or licensure revocation actions have been threatened, management believes that the Obligated Group will not suffer any material adverse effect as a result thereof. There can be no assurance, however, that the Corporation or the other Members of the Obligated Group will not be subject to sanctions and penalties in the future as a result of such actions.

State Anti-Kickback and Physician Self-Referral Prohibitions. California also has similar anti-kickback statutes and physician self-referral prohibitions to the federal laws described earlier. Violations of these laws may result in civil and criminal penalties. Management of the Obligated Group believes that it is presently in material compliance with these state laws. However, in light of the broad language and interpretation of these laws, there can be no assurances that the Obligated Group and any future Member of the Obligated Group will not be found to have violated these state laws, and, if so, that any sanction imposed would not have a material adverse effect on the operations of the facilities or the financial condition of the Obligated Group and any future Member of the Obligated Group.

Pending Legislation

The Obligated Group's facilities are subject to a wide variety of federal, state, and local regulatory, legislative and policy changes which could have a significant impact on the Corporation and the other Members of the Obligated Group. Various legislative proposals could affect the accounting for and use of entrance fees, segregated accounts and reserve requirements, and the monthly service fees charged to residents. In addition, government entities may enact legislation that imposes significant new

burdens on the operations of the Corporation and the other Members of the Obligated Group or alters or eliminates programs that contribute to the revenues of the Corporation and the other Members of the Obligated Group. There can be no assurance that legislative bodies will not make legislative policy changes (or direct government agencies to promulgate regulatory changes) that have adverse effects upon the Corporation and the other Members of the Obligated Group.

Other Legislation

Section 7872 of the Code (Treatment of Loans with Below-Market Interest Rates), provides for, in certain circumstances, the imputation of interest income to a lender when the rate of interest charged by the lender is below prevailing market rates (as determined under a formula) or, even if the below market interest rate loan would otherwise be exempt from the provisions of Section 7872, when one of the principal purposes for such below-market rate loan is the avoidance of federal income taxation.

A refundable entrance fee payment made by a resident to certain continuing care facilities 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 the residency agreements executed by residents of the Obligated Group's facilities come within the scope of the continuing care facility safe harbor or within the statute itself. Section 7872 is applicable only to "loans" in excess of \$158,000. Entrance fees for some of the Obligated Group's residential living units are in excess of the applicable threshold of Section 7872. Any determination of applicability of Section 7872 could have the effect of discouraging potential residents from becoming or remaining residents of the facilities of the Obligated Group.

Intermediate Sanctions

On July 31, 1996, the Taxpayers Bill of Rights 2 (the "Taxpayers Act") was signed into law. The Taxpayers Act provides the IRS with an "intermediate" tax enforcement tool to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Previous to the "intermediate sanctions law," the IRS could punish such violations only through revocation of an entity's tax-exempt status.

Intermediate sanctions may be imposed where there is an "excess benefit transaction," defined to include a disqualified person (i.e., an insider) (1) engaging in a non-fair market value transaction with the tax-exempt organization; (2) receiving unreasonable compensation from the tax-exempt organization; or (3) receiving payment in an arrangement that violates the private inurement proscription.

A disqualified person who benefits from an excess benefit transaction will be subject to a "first tier" penalty excise tax equal to 25% of the amount of the excess benefit. Organizational managers who participate in an excess benefit transaction knowing it to be improper are subject to a first-tier penalty excise tax of 10% of the amount of the excess benefit, subject to a maximum penalty of \$10,000. A "second tier" penalty excise tax of 200% of the amount of the excess benefit may be imposed on the disqualified person (but not the organizational manager) if the excess benefit transaction is not corrected in a specified time period.

The IRS has also issued Revenue Rulings dealing specifically with the manner in which a facility providing residential services to the elderly must operate in order to maintain its exemption under Section 501(c)(3). Revenue Rulings 61-72 and 72-124 hold that, if otherwise qualified, a facility providing

residential services to the elderly is exempt under Section 501(c)(3) if the organization (1) is dedicated to providing, and in fact provides or otherwise makes available services for, care and housing to aged individuals who otherwise would be unable to provide for themselves without hardship, (2) to the extent of its financial ability, renders services to all or a reasonable proportion of its residents at substantially below actual cost and (3) renders services that minister to the needs of the elderly and relieve hardship or distress. Revenue Ruling 79-18 holds that a facility providing residential services to the elderly may admit only those tenants who are able to pay full rental charges, provided that those charges are set at a level that is within the financial reach of a significant segment of the community's elderly persons. The Revenue Ruling also holds that the organization must be committed, by established policy, to maintaining persons as residents, even if they become unable to pay the monthly charges after being admitted to the facility.

Corporate Practice of Medicine

Many states, including California, prohibit business corporations and other persons or entities not licensed to practice medicine from providing, or holding themselves out as providers of, medical care. Possible sanctions for violation of any of these restrictions or prohibitions include loss of licensure or eligibility to participate in reimbursement programs and civil and criminal penalties. These laws, their construction and level of enforcement, vary from state to state. Management of the Obligated Group believes that its facilities are, and will continue to be, in compliance with any restrictions on the corporate practice of medicine. Any failure to maintain this compliance could have a material adverse effect on the operations of the Obligated Group and any future Member of the Obligated Group.

Matters Relating to Enforceability

Enforceability of the Master Indenture. The obligation of the Members of the Obligated Group under the Obligations issued pursuant to the Master Indenture, including Obligation No. 7 and the Swap Obligation, will be limited (i) to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency and the application of general principles of creditors' rights and (ii) as additionally described below.

The accounts of the Members of the Obligated Group will be combined for financial purposes and will be used in determining whether various covenants and tests contained in the Master Indenture (including tests relating to the incurrence of Additional Indebtedness), are met, notwithstanding uncertainties as to the enforceability of certain obligations of the Members of the Obligated Group contained in the Master Indenture. Such uncertainties bear on the availability of the assets of Members of the Obligated Group for payment of debt service on the Obligations, including Obligation No. 7, pledged under the Bond Indenture, as applicable. The joint and several obligation described herein of the Members of the Obligated Group to make payments of debt service on the Obligations are, in the opinion of counsel to the Corporation and the other Members of the Obligated Group, anticipated to be enforceable under the laws of the State of California, except to the extent enforceability of such obligation may be limited as described under this caption.

A Member of the Obligated Group may not be required to make any payment of any Obligation, or portion thereof, the proceeds of which Obligation were not loaned or otherwise disbursed to such member, to the extent that such payments (i) are requested to be made with respect to any Obligations which are issued for a purpose which is not consistent with the charitable purposes of the Member from which such payment is requested or which are issued for the benefit of any entity other than a not-for-profit corporation which is exempt from federal income taxes under Sections 501(a) and 501(c)(3) of the Code and is not a "private foundation" as defined in Section 509(a) of the Code; (ii) are requested to be

made from any monies or assets which are donor restricted or which are subject to a direct or express trust which does not permit the use of such monies or assets for such a payment; (iii) would result in the cessation or discontinuation of any material portion of the health care or related services previously provided by the member from which such payment is requested; or (iv) are requested to be made pursuant to any loan violating applicable usury laws. Due to the absence of clear legal precedent in this area, the extent to which the assets of any future member fall within the category referred to in clause (ii) above cannot be determined. The amount of such assets which fall within such category could be substantial.

A Member of the Obligated Group may not be required to make any payment of any Obligation, or portion thereof, the proceeds of which were not loaned or otherwise disbursed to such Member to the extent that such payment would render the member insolvent or which would conflict with, not be permitted by or be subject to recovery for the benefit of other creditors of such member under applicable law. There is no clear precedent in the law as to whether such payments from a Member to pay debt service on Obligations may be voided by a trustee in bankruptcy in the event of a bankruptcy of such Member, or by third party creditors in an action brought pursuant to state fraudulent conveyance statutes. Under the United States Bankruptcy Code, a trustee in bankruptcy and, under state fraudulent conveyance statutes, a creditor of a related guarantor, may avoid any obligation incurred by a related guarantor if, among other bases therefor, (i) the guarantor has not received fair consideration or reasonably equivalent value in exchange for the guaranty and (ii) the guaranty renders the guarantor insolvent, as defined in the United States Bankruptcy Code or California fraudulent conveyance statutes, or the guarantor is undercapitalized.

Application by courts of the tests of "insolvency," "reasonably equivalent value" and "fair consideration" has resulted in a conflicting body of case law. It is possible that, in an action to force a Member of the Obligated Group to pay debt service on an Obligation for which it was not the direct beneficiary, a court might not enforce such obligation to make such a payment in the event it is determined that the member is analogous to a guarantor of the debt of the member who directly benefited from the borrowing and that fair consideration or reasonably equivalent value for such Member's guaranty was not received or that the incurrence of such obligation has rendered or will render such Member insolvent or that at the time of incurrence of such guaranty the guarantor was undercapitalized.

Certain Risks Associated with the Deeds of Trust

General. Each Member of the Obligated Group will execute a Deed of Trust on its respective facilities (with the exception of Eskaton's corporate headquarters building) to secure its obligations pursuant to the Master Indenture. In the event that there is a default under the Master Indenture, the Master Trustee has the right to foreclose on such facilities under certain circumstances. All amounts collected upon foreclosure of the facilities pursuant to the Deed of Trust will be used to pay certain costs and expenses incurred by, or otherwise related to, the foreclosure, the performance of the Master Trustee and/or the beneficiary under the Deed of Trust, and then to pay amounts owing under the Master Indenture. While the Deed of Trust will secure all Obligations under the Master Indenture, such Deed of Trust may be modified or terminated with the consent of the Bond Insurer and without the consent of any holders of an Obligation or of the Series 2005 Bonds.

Any valuation of the facilities is based on future projections of income, expenses, capitalization rates and the availability of the partial or total property tax exemption. Additionally, the value of the facilities will at all times be dependent upon many factors beyond the control of the Obligated Group, such as changes in general and local economic conditions, changes in the supply of or demand for competing properties in the same locality, and changes in real estate and zoning laws or other regulatory

restrictions. A material change in any of these factors could materially change the value in use of the facilities. Any weakened market condition may also depress the value of the facilities of the Obligated Group. Any reduction in the market value of the facilities could adversely affect the security available to the owners of the Series 2005 Bonds. There is no assurance that the amount available upon foreclosure of the facilities after the payment of foreclosure costs will be sufficient to pay the amounts owing by the Obligated Group on the Obligations, including Obligation No. 7.

In the event of foreclosure, a prospective purchaser of the facilities may assign less value to the facilities than the value of such facilities while owned by the Members of the Obligated Group since such purchaser may not enjoy the favorable financing rates associated with tax-exempt bonds, including the Series 2005 Bonds, real estate tax exemption and other benefits. To the extent that buyers whose income is not tax-exempt may be willing to pay less for the facilities than nonprofit buyers, then the resale of the facilities after foreclosure may require more time to solicit nonprofit buyers interested in assuming the financing now applicable to the facilities. In addition, there can be no assurance that the facilities could be sold at one hundred percent (100%) of its fair market value in the event of foreclosure. Although the holders of the Obligations will have available the remedy of foreclosure of the Deed of Trust in the event of a default (after giving effect to any applicable grace periods, and subject to any legal rights which may operate to delay or stay such foreclosure, such as may be applicable in the event of a Member of the Obligated Group'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 Obligation No. 7 and the other Obligations.

The Deed of Trust will contain power of sale provisions and will be governed by California law. Under California law, the beneficiary of a deed of trust with power of sale may cause the instrument to be foreclosed either judicially (by a court proceeding) or nonjudicially by a trustee's sale.

California has certain statutory prohibitions that limit the remedies of a beneficiary under a deed of trust, such as the Deed of Trust securing the Obligations. For example, under one statute, a deficiency judgment is barred where the foreclosure is accomplished by means of a nonjudicial trustee's sale. Another statute, commonly known as the "one-action" rule, requires the beneficiary to exhaust the security under the deed of trust by foreclosure and prohibits any personal action against the trustor on the promissory note other than a deficiency judgment following a judicial foreclosure. And yet another statutory provision limits any deficiency judgment obtained by the beneficiary following a judicial sale to the excess of the outstanding debt over the fair market value of the property at the time of sale, thereby preventing a beneficiary from obtaining a large deficiency judgment against the debtor as a result of low bids at the judicial sale. Under California law, the Deed of Trust is also subject to a one-year statutory right of redemption.

In the event that the Deed of Trust is actually foreclosed, then, in addition to the customary costs and expenses of operating the maintaining the facilities, the party or parties succeeding to the interest of the Members of the Obligated Group in their respective 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 Master Indenture or Deed of Trust, the Master Trustee will be required to conduct a foreclosure sale of the facilities under the Master Indenture and the Deed of Trust pursuant to Article 9 of the California Commercial Code. Such a foreclosure sale must be held in a

"commercially reasonable" manner, and is subject to subsequent claims that the sale was not "commercially reasonable" and therefore was invalid. Because there is no established market for deeds of trust comparable to the Deed of Trust, little guidance exists for conducting a "commercially reasonable" sale under these circumstances. Therefore, no assurance can be given that a foreclosure sale of the Master Trustee's interest in the Master Indenture and the Deed of Trust will not subsequently be held to be invalid and set aside or that a purchaser could be found for such interests.

IN ORDER TO UNDERSTAND IN FULL THE RISKS AND PROCEDURES INVOLVED IN FORECLOSURE OF THE DEED OF TRUST UNDER CALIFORNIA LAW, POTENTIAL OWNERS OF THE SERIES 2005 BONDS ARE ADVISED, AND EXPECTED, TO CONSULT WITH AN EXPERT IN THE FIELD BEFORE PURCHASING THE SERIES 2005 BONDS.

Enforceability of Credit Documents Generally. The realization of rights upon any default will depend upon the exercise of various remedies appearing in the Master Indenture, the Bond Indenture and the Loan Agreement. These remedies, in certain respects, may require judicial action, which is often subject to discretion and delay. Under existing law, certain of the remedies specified in the Master Indenture, the Bond Indenture and the Loan Agreement may not be readily available or may be limited. A court may decide not to order the specific performance of the covenants contained in these documents.

The security interest in the Gross Revenues granted to the Master Trustee pursuant to the Master Indenture may be subordinated to the interests and claims of others or limited by or subject to other claims and interests in several instances. Examples of cases of subordination for prior claims or interests are: (1) statutory liens; (2) rights arising in favor of the United States of America or any agency thereof; (3) present or future prohibitions against assignment in any Federal statutes or regulations; (4) constructive trusts, equitable liens or other rights impressed or conferred by any state or Federal court in the exercise of its equitable jurisdiction; (5) Federal bankruptcy laws that may affect the enforceability of the Master Indenture or assignments of revenues by the Members of the Obligated Group before or after any effectual institution of bankruptcy proceedings by or against the Members of the Obligated Group; (6) rights of third parties in the property converted to cash and not in the possession of the Master Trustee or the Authority; and (7) claims that might arise if appropriate continuation statements are not filed in accordance with the Uniform Commercial Code as from time to time in effect. Pursuant to the Master Indenture, the Corporation and the other Members of the Obligated Group are required to file continuation statements and other documents necessary to protect and preserve the security interests in certain personal property granted to secure the Series 2005 Bonds. Failure to file such statements could subject the rights of the Master Trustee in such collateral to the claims of intervening creditors.

Enforcement of the remedies under the Master Indenture, the Bond Indenture and the Loan Agreement may be limited or restricted by state laws concerning the use of assets of charitable corporations and by federal and state laws relating to bankruptcy, fraudulent conveyances, and rights of creditors and by application of general principles of equity applicable to the availability of specific performance, and may be substantially delayed in the event of litigation or statutory remedy procedures. The various legal opinions to be delivered concurrently with the delivery of the Series 2005 Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by state and federal laws, rulings and decisions affecting remedies, and by general principles of equity and by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors.

Federal bankruptcy law may have an adverse effect on the ability of the Master Trustee to enforce its claim to the security in certain property that may be secured under the Master Indenture. Federal bankruptcy law permits adoption of a reorganization plan, even though it has not been accepted by creditors, if they are provided with the benefit of their original lien or the "indubitable equivalent." In

addition, if the bankruptcy court concludes that the Master Trustee has "adequate protection," it could under certain circumstances (1) substitute other security for the security provided by the Master Indenture, and (2) subordinate the lien and security interest of the Master Trustee to (a) claims by person supplying goods and services to the bankrupt after the bankruptcy and (b) the administrative expenses of the bankruptcy proceeding. In the event of the bankruptcy of a Member of the Obligated Group, the amount realized by the Master Trustee might depend, among other factors, on the bankruptcy court's interpretation of "indubitable equivalent" and "adequate protection" under the then existing circumstances.

Bankruptcy

If the Corporation or any other Member of the Obligated Group 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 or any such Member and its property and as an automatic stay of any act or proceeding to enforce a lien upon its property. If the bankruptcy court so ordered, the Corporation's or such other Member's property, including its accounts receivable and proceeds thereof, could be used for the benefit of the Corporation of such other Member despite the security interest of the Master 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.

Auction Rate Securities

The Broker-Dealer has advised the Authority and the Corporation that the Broker-Dealer and various other broker-dealers and other firms that participate in the auction rate securities market received letters from the staff of the Securities and Exchange Commission (the "SEC") in the spring of 2004. The letters requested that each of these firms voluntarily conduct an investigation regarding its respective practices and procedures in that market. Pursuant to these requests, the Broker-Dealer conducted its own voluntary review and reported its findings to the SEC staff. The Broker-Dealer is engaged in discussions with the SEC staff concerning this inquiry. None of the Broker-Dealer, the Authority or the Corporation or the others Members of the Obligated Group can predict the ultimate outcome of the inquiry or how that outcome will affect the market for or interest rate on the Series 2005 Bonds while in the Auction Rate Mode or the Auctions.

Uncertainty of Investment Income

The investment earnings of, and accumulations in, certain funds established pursuant to the Bond Indenture have been estimated and are based on assumed interest rates as indicated. While these assumptions are believed to be reasonable in view of the rates of return presently and previously available on the types of securities in which the 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 investment income will actually be realized. Guaranteed investment contracts are being entered into with respect to certain funds held under the Bond Indenture. See "ESTIMATED SOURCES AND USES OF FUNDS" above.

Taxation of Interest on the Series 2005 Bonds

Because the existence and continuation of the excludability of the interest on the Series 2005 Bonds from federal gross income of the owners thereof depends upon events occurring after the date of issuance of the Series 2005 Bonds, the opinion of Bond Counsel described under the caption "TAX MATTERS" herein assumes the compliance by the Corporation and the other Members of the Obligated Group with the provisions of the Code and the regulations relating thereto. No opinion is expressed by Bond Counsel with respect to the excludability of the interest on the Series 2005 Bonds in the event of noncompliance with such provisions. The failure of the Corporation and the other Members of the Obligated Group to comply with the provisions of the Code and the regulations thereunder may cause the interest on the Series 2005 Bonds to become includable in gross income of the owners thereof as of the date of issuance.

Possible Future Federal Tax Legislation

It is possible that future tax legislation could require that the interest on the Series 2005 Bonds be included in the gross income of the holders for federal income tax purposes, and the value or marketability of the Series 2005 Bonds could be adversely affected by any such legislation. The Series 2005 Bonds are not required to be redeemed in the event that interest on the Series 2005 Bonds becomes includable in gross income for federal income tax purposes or becomes an item of tax preference for purposes of the federal alternative minimum tax applicable to individuals, and there is no provision in the Bond Indenture, the Series 2005 Bonds, or any document related to the issuance thereof, for an increase in the rate of interest payable on the Series 2005 Bonds in the event that interest on the Series 2005 Bonds becomes includable in gross income for federal income tax purposes or becomes an item of tax preference for purposes of the federal alternative minimum tax applicable to individuals. See "TAX MATTERS" herein.

Internal Revenue Code Compliance

The IRS has determined that the Corporation and the other Members of the Obligated Group are tax-exempt organizations described in Section 501(c)(3) of the Code, and exempt from taxation under Section 501(a) of the Code. As tax-exempt, charitable organizations, the Corporation and the other Members of the Obligated Group and their respective operations are and each future Member of the Obligated Group and their operations will be subject to various requirements specified by the Code and the regulations promulgated thereunder. Compliance with those requirements is necessary to maintain the tax-exempt status of each Member of the Obligated Group.

If the Corporation or any other Member of the Obligated Group should fail to meet any of the requirements specified by the Code and regulations thereunder as necessary to maintain its tax-exempt status, action could be initiated by Federal or state tax authorities to attempt to subject the Corporation or such Member, its property, and its revenues to taxation. If successful, such action could cause interest on the Series 2005 Bonds to be taxable to the holders thereof. Under the Code as amended to the date of this Official Statement, the failure of the Corporation or any other Member of the Obligated Group to maintain its tax-exempt status could constitute a default under the Loan Agreement. The Corporation has covenanted in the Loan Agreement that it will not take or omit to take any action, if such act or omission would cause the interest on the Series 2005 Bonds to be includable in the gross income of any holders of the Series 2005 Bonds for Federal income tax purposes. However, there is no provision in the Bond Indenture, or any other document related to the issuance of the bonds, which requires that the Series 2005 Bonds be redeemed or accelerated in the event that the interest on the Series 2005 Bonds becomes includable in gross income of the holders thereof for Federal income tax purposes.

Loss of tax-exempt status by the Corporation or a Member of the Obligated Group could result in loss of tax-exemption of the Series 2005 Bonds and or other tax-exempt debt issued for the benefit of the Corporation, and defaults in covenants regarding the Series 2005 Bonds and other related tax-exempt debt would likely be triggered. Such an event would have material adverse consequences on the financial condition of the Corporation and the other Members of the Obligated Group.

The maintenance by the Corporation and each other Member of the Obligated Group of tax-exempt status depends, in part, upon the maintenance of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of such status is contingent upon compliance with general rules promulgated in the Code and related regulations regarding the organization and operation of tax-exempt entities, including their operation primarily for charitable purposes. The IRS has announced that it intends to closely scrutinize transactions between nonprofit corporations and for-profit entities, including transactions relating to the Anti-Kickback Law, and has issued revised audit guidelines for tax-exempt health care entities. Although specific activities of health care entities have been the subject of interpretations by the IRS in the form of Private Letter Rulings, many activities have not been addressed in any official opinion, interpretation or policy of the IRS. Because the Obligated Group conducts large-scale and diverse operations involving private parties, there can be no assurance that certain of the Obligated Group's transactions would not be challenged by the IRS.

On July 31, 1996, the Federal Taxpayers Bill of Rights 2 (the "Taxpayers Act") was signed into law. The Taxpayers Act provides the IRS with an "intermediate" tax enforcement tool to combat violations by tax-exempt organizations of the private inurement prohibition of the Code. Prior to this "intermediate sanctions" law, the IRS could punish such violations only through revocation of an organization's tax-exempt status.

Intermediate sanctions may now be imposed where there is an "excess benefit transaction," generally defined to include a disqualified person (i.e., an insider) engaging in an economic transaction with a tax-exempt organization at other than fair market value.

A disqualified person who benefits from an excess benefit transaction will be required to restore the excess benefit to the exempt organization and will be subject to a "first tier" penalty excise tax equal to 25% of the amount of the excess benefit. Organizational managers (e.g., directors) who participate in an excess benefit transaction knowing it to be improper are subject to a "first-tier" penalty excise tax of 10% of the amount of the excess benefit, subject to a maximum penalty of \$10,000. A "second tier" penalty excise tax of 200% of the amount of the excess benefit may be imposed on the disqualified person (but not the organizational manager) if the excess benefit transaction is not corrected in a specified time period. The intermediate sanctions law is effective retroactively to September 14, 1995.

Property Taxes

Local property tax assessors take differing positions as to whether or not facilities such as those owned by the Corporation and the other Members of the Obligated Group are exempt from property taxation. Moreover, budgetary pressures on local government may lead to increasing pressures for state legislation to amend the property tax statutes to subject to taxation various properties owned by nonprofit organizations or to condition exemption from taxation upon the performance of specific types or level of charitable activity. There can be no assurance as to whether the facilities and the Obligated Group's properties will be exempt from property taxation.

Interest Rate Swap and Other Hedge Risk

Any interest rate swap or other hedge agreement to which the Corporation or any future Member of the Obligated Group is a party may, at any time, have a negative value to the Obligated Group. If either a swap or other hedge counterparty or the Corporation or any future member of the Obligated Group terminates such an agreement when the agreement has a negative value to the Obligated Group, the Obligated Group would be obligated to make a termination payment to the counterparty in the amount of such negative value, and such payment could be substantial and potentially materially adverse to the financial condition of the Obligated Group. A counterparty generally may only terminate such an agreement upon the occurrence of defined termination events such as nonpayment by the Obligated Group, a bankruptcy type event, cross default to specified indebtedness or other swaps, other breaches of covenants in such agreements or the withdrawal of the ratings assigned to the Corporation's indebtedness or a downgrade of such ratings below specified levels.

Pursuant to the Swap Agreement expected to be executed in connection with the issuance of the Series 2005 Bonds, the Swap Counterparty is obligated to make variable rate payments, which payments may be more or less than the floating rate the Corporation is required to make with respect to Obligation No. 7. The Corporation is being compensated for this basis risk by paying a fixed rate which is lower than a comparable fixed bond rate. No determination can be made at this time as to the potential exposure to the Corporation relating to the difference in the two variable rate cash flows.

Each Swap Agreement requires the Corporation to provide additional security for its obligations in certain circumstances including without limitation a downgrade of the rating assigned to the long-term Indebtedness issued on behalf of the Corporation and the occurrence of certain other events. The Master Indenture permits the Corporation to grant a security interest and lien on collateral for this purpose. Under the terms of the Swap Agreements, no collateral is currently required to be posted.

Other Considerations

Labor Relations. Nonprofit nursing homes and their employees came under the jurisdiction of the National Labor Relations Board in 1974. At the present time none of the employees of the Corporation is represented by a labor organization. Unionization of employees or a shortage of qualified professional personnel could cause an increase in payroll costs beyond those projected.

Reduced Demand. The reduced need for services arising from future scientific advances, preventive medicine, home healthcare services, alternative delivery systems, changes in demographics, or a decline in the population or the economic condition of any of the service areas of the Obligated Group's nursing care, assisted living or residential facilities may adversely affect the Obligated Group's revenues.

Insurance. In recent years the number of malpractice suits and the dollar amount of patient damage recoveries have been increasing nationwide, resulting in substantial increases in malpractice insurance premiums. Cost and availability of any insurance, such as malpractice, fire, automobile, and general comprehensive liability, that nursing care and residential facilities of a similar size and type generally carry may change unexpectedly, which could adversely affect the Obligated Group's operations.

Changes in Tax Policy. Taxing authorities in certain jurisdictions have sought to impose or increase taxes related to the property and operations of nonprofit organizations, including nursing homes, assisted living facilities and residential rental housing, particularly where such authorities are dissatisfied with the amount of service provided to indigents. The Obligated Group believes its services to indigents are adequate, but it is possible that future administrative or judicial proceedings will have the effect of requiring the Obligated Group or one or more members of the Obligated Group to increase its services to indigent patients to retain its tax-exempt status, or to pay additional taxes, either of which would have an adverse effect on the revenues of the Obligated Group and any future Member of the Obligated Group.

Cost Increases. Cost increases without corresponding increases in revenue would result from, among other factors, increases in the salaries, wages and fringe benefits of employees, increases in costs associated with advances in medical technology or with inflation and future legislation which would prevent or limit the ability of the Obligated Group to increase revenues from operating its facilities or providing services. At present, charitable organizations such as the Corporation and the other Members of the Obligated Group do not pay real estate taxes on certain real property used in connection with their exempt purposes, and are not required to pay fees for municipal services in respect of such real property unless the fees represent user fees of general application. It is possible that the states in which the Obligated Group operates will pass legislation requiring certain tax exempt organizations, such as the Members of the Obligated Group, to pay certain fees for municipal services, which may in turn increase the Obligated Group's operating costs. Furthermore, the Code places certain limitations on the ability to finance certain projects, invest bond proceeds and advance refund prior tax-exempt bond issues. These limitations may increase the interest costs for future borrowings by the Obligated Group.

Governmental Approvals. The possible inability to obtain future governmental approvals to undertake projects necessary to remain competitive both as to rates and charges as well as quality and scope of care could adversely affect the operations of the Obligated Group.

Natural Disasters. The occurrence of natural disasters, including earthquakes, floods and tornadoes, may damage some or all of the facilities operated by the Corporation and the Obligated Group or interrupt utility service to some or all of the facilities, otherwise impair the operations of some or all of the facilities, or the generation of revenues from some or all of the facilities. The Corporation and the

Obligated Group may not be able to obtain insurance against all such hazards at commercially reasonable rates.

Adverse Relations. Adverse community relations or publicity involving some or all of the facilities owned or managed by the Corporation and the Obligated Group could affect the demand for the services provided by such facilities, or the generation of revenues from some or all of the facilities.

Other Legislation. The Obligated Group's facilities are subject to a wide variety of federal, state and local environmental and occupational health and safety laws and regulations that address, among other things, operations of facilities and properties owned or operated by nursing facilities. Among the types of regulatory requirements faced by nursing facilities are: air and water quality control requirements; waste management requirements; specific regulatory requirements applicable to asbestos; requirements related to polychlorinated biphenyls, and radioactive substances; requirements for providing notice to employees and members of the public about hazardous materials handled by or located at the nursing facility or hospital; requirements for training employees in the proper handling and management of hazardous materials and wastes; and other requirements. In their role as owners and operators of properties or facilities, the Obligated Group and its facilities may be subject to liability for investigating and remedying any hazardous substances that have come to be located on the property, including any such substances that may have migrated off of the property. Typical operations of skilled nursing, assisted living and residential facilities include, to some extent, and in various combinations, the handling, use, storage, transportation, disposal and discharge of hazardous, infectious, toxic, radioactive, flammable and other hazardous materials, wastes, pollutants or contaminants. For this reason, operations of such facilities are susceptible to the practical, financial and legal risks associated with compliance with such laws and regulations. Such risks may result in damage to individuals, property or the environment; may interrupt operations or increase their cost or both; may result in legal liability, damages, injunctions or fines; or may trigger investigations, administrative proceedings, penalties or other government agency actions. There can be no assurance that the Obligated Group 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 Obligated Group.

Environmental Matters. Health care facilities, such as those of the Obligated Group, 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 2005 Bonds will not be lowered or withdrawn at any time, the effect of which could be to adversely affect the market price for and marketability of the Series 2005 Bonds.

CONTINUING DISCLOSURE

No financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Series 2005 Bonds of the Authority. Consequently, the Authority will not provide any such information. The Corporation, as Obligated Group Representative on behalf of the Obligated Group, has undertaken all responsibility for any continuing disclosure to owners of the Series 2005 Bonds as described below, and the Authority shall have no liability to the owners or any other person with respect to such disclosure.

General

The Corporation, as Obligated Group Representative on behalf of the Obligated Group, has undertaken, pursuant to a continuing disclosure agreement (the "Disclosure Agreement") and for the benefit of the holders and Beneficial Owners of the Series 2005 Bonds, to provide certain financial statements and updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors described below. This information will be available to securities brokers and others who subscribe to receive the information from such vendors. The Corporation will comply with the Disclosure Agreement as long as the Series 2005 Bonds remain outstanding.

Quarterly and Annual Reports

The Corporation will provide certain quarterly and annual financial statements and updated financial information and operating data (collectively, the "Report") to each nationally recognized municipal securities information repository ("NRMSIR") and to the state information depositories ("SIDs"), if any, designated by the State of California (the "State") which, in each case, are approved by the Securities and Exchange Commission (the "SEC"). The updated information to be included in each Report will consist of all quantitative financial information and operating data of the general type included in APPENDIX A to this Official Statement under the captions "Operating Statistics." The Corporation will provide the Report to the NRMSIRs and the SIDs within 180 days after the end of each fiscal year of the Corporation, commencing with the fiscal year ending December 31, 2005, and within 45 days after the end of each fiscal quarter ending March 31, June 30, September 30 and December 31.

The Corporation may provide the Report in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 (the "Rule") promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended. The Report will include the audited consolidated financial statements of the Corporation. If any such audited financial statements are not available at the time the Corporation is required to provide the Report to the NRMSIRs and the SIDs, the Corporation will provide such audited financial statements promptly upon their becoming available.

Material Event Notices

The Corporation will provide timely notice to the Bond Trustee, to each NRMSIR or the Municipal Securities Rulemaking Board and to each SID of any of the following events with respect to the Series 2005 Bonds if such event is material to a decision to purchase or sell the Series 2005 Bonds:

1. principal and interest payment delinquencies;
2. non-payment related defaults;
3. unscheduled draws on debt service reserves, if any, reflecting financial difficulties;
4. unscheduled draws on credit enhancements, if any, reflecting financial difficulties;
5. substitution of credit or liquidity providers, if any, or their failure to perform;
6. adverse tax opinions or events affecting the tax-exempt status of the Series 2005 Bonds;
7. modifications to rights of holders of the Series 2005 Bonds;
8. Series 2005 Bond calls (other than scheduled mandatory sinking fund calls);
9. defeasances;
10. release, substitution, or sale of property, if any, securing repayment of the Series 2005 Bonds; and
11. rating changes.

In addition, the Corporation will provide timely notice of any failure by the Corporation to provide the Report in accordance with the Disclosure Agreement. All such events listed under this subcaption are hereinafter collectively referred to as the "Listed Events."

Limitations

The Corporation has agreed to provide the updated Report Information and notices of Listed Events only as described above. The Corporation has not agreed to provide other information that may be relevant or material to a completed presentation of its financial results of operations, condition or prospects and has not agreed to update any information contained in the Report, except as described above. The Corporation makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Series 2005 Bonds at any future date. The Corporation disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of the Disclosure Agreement, provided that the holders of the Series 2005 Bonds may seek a writ of mandamus to compel the Corporation to comply with the Disclosure Agreement.

LITIGATION

The Authority

There is not now pending nor, to the actual knowledge of the Authority, threatened any litigation against the Authority restraining or enjoining the issuance or delivery of the Series 2005 Bonds or questioning or affecting the validity of the Series 2005 Bonds or the proceedings or authority under which they are to be issued. Neither the creation, organization nor existence of the Authority nor the title of any of the present members or officers of the Authority to their respective offices is being contested. There is no litigation against the Authority pending or, to the actual knowledge of the Authority, threatened, that in any manner questions the right of the Authority to enter into the Bond Indenture or the Loan Agreement or to secure the Series 2005 Bonds in the manner provided in the Bond Indenture and the Act.

Obligated Group

Management of the Obligated Group has advised that there is no litigation or proceeding pending or threatened against any Member of the Obligated Group except litigation or proceedings in which the estimated probable ultimate recoveries and the costs and expenses of defense, in the opinion of management for such Members of the Obligated Group, (i) will be entirely within applicable commercial insurance policy limits (subject to applicable deductibles) or are not in excess of the total available reserves held under applicable self-insurance programs, or (ii) will not have a material adverse effect on the operation or financial condition of the Obligated Group as a whole. No litigation or proceedings are pending or, to the knowledge of the Members of the Obligated Group, threatened against any of them which in any manner question the right of any Member of the Obligated Group to enter into the transactions described herein.

LEGAL MATTERS

Certain legal matters incidental to the authorization, issuance and sale by the Authority of the Series 2005 Bonds will be subject to the approving opinion of Holland & Knight LLP, Bond Counsel. Certain legal matters will be passed upon for the Authority by its counsel, Jones Hall, A Professional Law Corporation, San Francisco, California; for the Bond Trustee and the Master Trustee by its counsel, Davis, Wright Tremaine LLP, San Anselmo, California; for the Members of the Obligated Group by their counsel, Hefner, Stark & Marois, LLP, Sacramento, California; for the Underwriter by its counsel, Ungaretti & Harris LLP, Chicago, Illinois; and for the Bond Insurer by its Senior Vice President and Deputy General Counsel.

TAX MATTERS

In the opinion of Holland & Knight LLP, Bond Counsel, under existing law, the interest on the Series 2005 Bonds is exempt from present State of California personal income taxes. In addition, in the opinion of Bond Counsel, under existing law, interest on the Series 2005 Bonds is excludable from gross income for federal income tax purposes. The opinion of Bond Counsel is rendered in reliance upon certain schedules provided by Cain Brothers and verified as to mathematical accuracy by Grant Thornton LLP.

The Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Series 2005 Bonds in order for the interest thereon to be and remain excludable from gross income for federal income tax purposes. Examples include: the requirement that the Corporation maintain its status as an organization exempt from federal income taxation by reason of being described in Section 501(c)(3) of the Code; the requirement that, unless an exception applies, the Authority rebate certain excess earnings on proceeds and amounts treated as proceeds of the Series 2005 Bonds to the United States Treasury; restrictions on the investment of such proceeds and other amounts; and restrictions on the ownership and use of any facilities financed with the proceeds of the Series 2005 Bonds. The foregoing is not intended to be an exhaustive listing of the post-issuance tax compliance requirements of the Code, but is illustrative of the requirements that must be satisfied by the Authority, the Corporation and the other Members of the Obligated Group subsequent to the issuance of the Series 2005 Bonds to maintain the exclusion of interest on the Series 2005 Bonds from gross income for federal income tax purposes. Failure to comply with such requirements may cause the inclusion of interest on the Series 2005 Bonds in the gross income of the owners thereof for federal income tax purposes, retroactive to the date of issuance of the Series 2005 Bonds. The Authority and the Corporation have covenanted in the Bond Indenture and the Loan Agreement to comply with each such requirement of the Code that must be satisfied subsequent to the issuance of the Series 2005 Bonds in order that interest thereon be, or continue to be, excludable from gross income for federal income tax purposes. The opinion of Bond Counsel is subject to the condition that the Authority and the Corporation comply with all such requirements. Bond Counsel has not been retained to monitor compliance with the described post-issuance tax requirements subsequent to the issuance of the Series 2005 Bonds.

Notwithstanding the foregoing, Bond Counsel expresses no opinion as to whether a change in Mode will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Series 2005 Bonds. The Bond Indenture requires an opinion of Bond Counsel with regard to a change in Mode before any such change occurs.

Alternative Minimum Tax. An alternative minimum tax is imposed by the Code on both corporations (as defined for federal income tax purposes) and on taxpayers other than corporations. Interest on the Series 2005 Bonds will not be treated as an item of tax preference for purposes of the alternative minimum tax. Interest on the Series 2005 Bonds will therefore not be included in the alternative minimum taxable income of taxpayers other than corporations. Interest on the Series 2005 Bonds received by a corporate Bondholder will, however, be included in such a Bondholder's adjusted current earnings. A corporation's alternative minimum taxable income will be increased by seventy-five percent (75%) of the corporation's adjusted current earnings not otherwise included in its alternative minimum taxable income. The rate of the alternative minimum tax imposed on corporations is twenty percent (20%).

Reference is made to the proposed form of opinion of Bond Counsel attached hereto as APPENDIX D for the complete text thereof.

Other Tax Consequences. Prospective purchasers of the Series 2005 Bonds should be aware that ownership of the Series 2005 Bonds may result in collateral federal income tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with "excess net passive income," foreign corporations subject to the branch profits tax and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry the Series 2005 Bonds. Prospective purchasers of the Series 2005 Bonds should also be aware that ownership of the Series 2005 Bonds may result in adverse tax consequences under the laws of various states. Bond

Counsel has not expressed an opinion regarding the collateral federal income tax consequences that may arise with respect to the Series 2005 Bonds. Further, Bond Counsel has expressed no opinion regarding the state tax consequences that may arise with respect to the Series 2005 Bonds other than the opinion described above relating to present State of California personal income taxes. Prospective purchasers of the Series 2005 Bonds should consult their tax advisors as to the collateral federal income tax and state tax consequences to them of owning the Series 2005 Bonds.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Ratings Group will assign to the Series 2005 Bonds the ratings of "Aa3" and "AA," respectively. Such ratings will be based upon the issuance by the Bond Insurer of the Policy simultaneously with delivery of the Series 2005 Bonds. The ratings assigned to the Series 2005 Bonds reflect only the views of the respective rating agencies, and an explanation of the significance of such ratings may be obtained only from the respective rating agencies.

Generally, rating agencies base their ratings on the information and materials furnished and on investigations, studies and assumptions by the rating agencies. No assurance can be given that a particular rating will be maintained for any given period of time or will not be revised or withdrawn entirely by the rating agency, if, in its judgment, circumstances warrant. Any such revision or withdrawal of the rating may have an adverse effect on the market price or marketability of the Series 2005 Bonds. The Underwriter, the Bond Insurer, the Authority and the Members of the Obligated Group have undertaken no responsibility to bring to the attention of the holders of the Series 2005 Bonds any proposed revision or withdrawal of the ratings of the Series 2005 Bonds or to oppose any such proposed revision or withdrawal.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The accuracy of the mathematical computations of the adequacy of the maturing principal of and interest earned on the escrow securities, together with other available funds, held in the escrow accounts to provide for the payment of the Refunded Bonds will be examined by Grant Thornton LLP ("Grant Thornton"), Minneapolis, Minnesota.

The computations will be based upon information and assumptions supplied by the Underwriter on behalf of the Authority. Grant Thornton has restricted its procedures to examining the arithmetical accuracy of the computations and has not evaluated or audited the assumptions or information used in the computations.

FINANCIAL STATEMENTS

The consolidated financial statements of Eskaton and Subsidiaries included in APPENDIX B to this Official Statement as of December 31, 2004 and 2003, and for the fiscal years then ended, have been audited by KPMG LLP, independent auditors, as stated in their report with respect thereto.

The consolidated financial statements of Eskaton and Subsidiaries include certain subsidiaries and affiliates of the Corporation that are not currently and will not be a part of the Obligated Group. The proposed new Obligated Group represented 92% and 93% of the total assets and revenues, respectively, of Eskaton and Subsidiaries in fiscal year 2003 and 98% and 94% of the total assets and revenues,

respectively, of Eskaton and Subsidiaries in fiscal year 2004. The percentages in the preceding sentence assume that EGRL and EVGV have been Members of the Obligated Group since January 1, 2003. Management of the Obligated Group believes that the results of operations and financial performance of such subsidiaries and affiliates that are not Members of the Obligated Group are not material to the operations of Eskaton and Subsidiaries.

UNDERWRITING

The Series 2005 Bonds are being purchased by Cain Brothers, as Representative of the Underwriters. Cain Brothers has agreed to purchase the Series 2005 Bonds at an aggregate purchase price of \$48,510,000, which reflects \$490,000 of Underwriter's discount, pursuant to an agreement entered into by and among the Authority, the Corporation and the Underwriter. The bond purchase agreement provides that the Underwriter will purchase all the Series 2005 Bonds, if any are purchased, and requires the Corporation to indemnify the Underwriter and the Authority against losses, claims and liabilities arising out of any untrue statement of a material fact contained in this Official Statement or the omission herefrom of any material fact in connection with the transactions contemplated by this Official Statement.

MISCELLANEOUS

The references herein to the Act, the Master Indenture, the Bond Indenture, the Loan Agreement, and the Policy are brief summaries of certain provisions thereof. Such summaries do not purport to be complete, and for full and complete statements of the provisions thereof reference is made to the Act, the Master Indenture, the Bond Indenture, the Loan Agreement, and the Policy in their entirety. Executed copies of such documents will be on file at the office of the Bond Trustee. All estimates and other statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

It is anticipated that CUSIP identification numbers will be printed on the Series 2005 Bonds, but neither the failure to print such numbers nor any error in the printing of such numbers shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for any Series 2005 Bonds.

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

The Members of the Obligated Group have reviewed the information contained herein which relates to them, their Property and operations, and have approved all such information for use within this Official Statement.

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

**ABAG FINANCE AUTHORITY FOR
NONPROFIT CORPORATIONS**

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

This Official Statement is approved:

Eskaton Properties, Incorporated,
as Obligated Group Representative on
behalf of the Obligated Group

By: /s/ Todd Murch
Chief Executive Officer

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APPENDIX A

Information Regarding the Eskaton Properties, Incorporated Obligated Group

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Appendix A

HISTORY AND BACKGROUND

Introduction

In the mid-1960s, individual members of the Christian Church of Northern California (the "Church") established a service organization to provide healthcare, housing and education under the name of Eskaton (an ancient Greek word interpreted to mean the end of the old and the beginning of the new). Eskaton was incorporated as a California nonprofit, public benefit corporation in 1967 ("Eskaton" or the "Parent"). In 1968, Eskaton was reorganized to focus exclusively on health care and housing, with a strong emphasis on services for the elderly. THERE WAS NOT AND IS NO FORMAL OR LEGAL CONNECTION TO THE CHURCH. THE CHURCH IS NOT OBLIGATED TO SUPPORT THE OPERATIONS OF ESKATON OR ANY OF ITS RELATED CORPORATIONS. THE CHURCH IS NOT OBLIGATED ON THE SERIES 2005 BONDS OR OBLIGATION NO. 7.

Eskaton expanded throughout the 1960s and 1970s, adding skilled nursing facilities ("SNFs") and acute care hospitals in California, from Monterey in the south to Mount Shasta Community Hospital in the north, and providing management services to a hospital in Pullman, Washington. During that time, Eskaton also formed a number of separate corporations to build elderly independent housing projects that received funding under the Housing and Urban Development Section 202 and 242 programs. Eskaton provided initial seed money, development services and ongoing management services to these projects. As a result of an affiliation and later disaffiliation in the 1980's, Eskaton no longer owns or operates acute care hospitals. In subsequent corporate reorganizations, other subsidiary and affiliate corporations were formed, including Eskaton Properties, Incorporated ("EPI" or the "Corporation"). The Corporation was the initial member of the obligated group (the "Obligated Group") established pursuant to a Master Trust Indenture dated as of July 1, 1999, as supplemented and amended (the "Master Indenture").

Eskaton and its affiliates (collectively referred to herein as the "Eskaton Group") are described in more detail below. An organizational chart depicting the Eskaton Group is provided below.

Eskaton, as described above, was incorporated on December 18, 1967 as a California nonprofit public benefit corporation. The Parent 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, having received a determination letter from the Internal Revenue Service dated October 22, 1991. The Parent's corporate office currently is located in Carmichael, California.

The Parent's stated mission is to enhance the quality of life of seniors through innovative health, housing and social services. The Parent serves as the sole corporate member of the Corporation and the other nonprofit members of the Eskaton Group. In addition, the Parent is the sole stockholder of the for profit members of the Eskaton Group, all of which are described below. The Parent sponsors eleven (11) Housing and Urban Development-financed Section 202 and Section 242 elderly housing projects situated throughout northern California (the "HUD Housing Projects"). In addition, the Parent operates various community service programs, including the Senior Connection Information and Referral Program, the Talking, Listening, Caring (TLC) Program for homebound seniors and the Carmichael Adult Day Health Center. The Parent is not a Member of the Obligated Group and is not obligated on the Series 2005 Bonds or Obligation No. 7.

Eskaton Properties, Incorporated is a California nonprofit public benefit corporation, incorporated on February 16, 1983. The Corporation is exempt from federal income tax under Section 501(a) of the Code, as an organization described in Section 501(c)(3) of the Code, having received a determination letter from the Internal Revenue Service dated March 29, 1984. The Corporation's corporate offices are located in Carmichael, California, along with those of the Parent.

Since its incorporation, the Corporation has held title to substantially all of the Eskaton Group's real property. By January 1, 1990, the Corporation had also assumed the operational responsibilities of substantially all the Eskaton Group's facilities and programs, except for those programs managed by the Parent, as indicated above. Additionally, the Corporation acts as the managing agent for the HUD Housing Projects that are sponsored by the Parent.

Eskaton Gold River Lodge ("EGRL") is a California nonprofit public benefit corporation, incorporated on February 16, 1983. EGRL is exempt from federal income tax under Section 501(a) of the Code, as an organization described in Section 501(c)(3) of the Code, having received a determination letter from the Internal Revenue Service dated January 26, 1984. EGRL currently operates a 94-bed assisted living facility located in Gold River, California. EGRL is a Member of the Obligated Group.

Eskaton Village--Grass Valley ("EVGV") is a California nonprofit public benefit corporation, incorporated on March 13, 2000. EVGV is exempt from federal income tax under Section 501(a) of the Code, as an organization described in Section 501(c)(3) of the Code, having received a determination letter from the Internal Revenue Service dated August 3, 2000. EVGV currently operates a 137-unit retirement community consisting of 80 units of congregate care and 57 units of assisted living. It is anticipated that EVGV will become a Member of the Obligated Group concurrently with the issuance of the Series 2005 Bonds.

Eskaton Foundation (the "Foundation") is a California nonprofit, public benefit corporation, incorporated on December 26, 1989. The Foundation is exempt from federal income tax under Section 501(c)(3) of the Code, as an organization described in Section 501(c)(3), having received a determination letter from the Internal Revenue Service dated October 22, 1991. The Foundation's purpose is to raise funds for the benefit of the Parent's community service programs. As of September 30, 2005, the Foundation had assets of approximately \$858,000. The Foundation is not a Member of the Obligated Group.

California Healthcare Consultants ("CHC") is a taxable subsidiary of the Parent, and was incorporated on July 30, 1981. CHC is a general partner in Senior Residential Services, which, in turn, is the sole corporate member of Granite Bay LLC. CHC also employs the staff of Eskaton's managed facilities including Eskaton Lodge Granite Bay, Casa de Santa Fe and Regency Place. CHC is not a Member of the Obligated Group.

Strategic Directions for the Eskaton Group

The long-range strategic plan of the Eskaton Group is directed toward growth in residential services with an emphasis on multi-service campuses. Based upon favorable demographics, the Eskaton Group intends to develop free standing assisted living, congregate care and independent living facilities, under the development and management expertise of the Corporation or in cooperation with local, for-profit developers. Management of the Eskaton Group anticipates that these projects will be funded primarily through separate, non-recourse financings. Implementation of this strategic plan is intended to focus the Corporation on providing services to the elderly in predominantly residential

settings, rather than in institutional settings, concurrently reducing its reliance on government reimbursement.

The Obligated Group

On the date hereof, the Corporation and EGRL are the only Members of the Obligated Group established under the Master Indenture. It is anticipated that EVGV will become a Member of the Obligated Group concurrently with the issuance of the Series 2005 Bonds.

GOVERNANCE AND MANAGEMENT OF THE OBLIGATED GROUP

The Corporation's corporate bylaws provide that it shall be governed by a Board of Directors (the "Board") consisting of no more than 15 members. Board members are elected for three consecutive three-year, staggered terms by the members of the Parent at the Parent's annual meeting in May of each year. The Board is vested with the responsibility for the property, affairs and funds of the Corporation.

The members of the Corporation's Board of Directors also serve as members of the Board of Directors of the Parent and EGRL. The current members of the Boards of Directors of the Corporation, the Parent and EGRL and their occupations and offices are as follows:

<u>Name</u>	<u>Occupation</u>	<u>Residence</u>	<u>Term Expires</u>
Alice Astafan	CEO, Federal Technology Center, Retired Major General in U.S. Air Force	Carmichael, California	2008
Gay Marie Bone	Associate Vice President, Morgan Stanley	Folsom, California	2012
Mary Hopp	Community Volunteer	El Dorado Hills, California	2013
Mark A. Hyjek	Certified Elder Law Attorney	Fair Oaks, California	2010
Eleanor L. Johnsen	Retired Small Business Owner	Carmichael, California	2007
Wes G. Justyn	Senior Vice President & General Manager, Summit Global Partners	El Dorado Hills, California	2012
Leeland King	CPA, Partner Burnett, Umphress, LLP	Fair Oaks, California	2013
Martha L. Kunkel	Retired Manager, UC Davis Health Systems	Carmichael, California	2011
William M. Mason	Retired Senior Vice President for Program Development, Sutter Health	Sacramento, California	2008
Todd Murch	President & CEO, Eskaton	Carmichael, California	***
Gregory A. Nathanson	President, US Education Corp	Sacramento, California	2011
Gary Perry	Attorney at Law	Sacramento, California	2009
Anita Watson, R.N., D.N.S.	Professor of Nursing, College of Health and Human Services, CSUS	Sacramento, California	2010
Clarence Williams	President, California Capital Financial Development Corporation	Sacramento, California	2009

*** Per the Eskaton Bylaws, the CEO term runs concurrent with employment.

The members of the Board of Directors of the Corporation, the Parent and EGRL serve without compensation for their services, but do receive reimbursement for out-of-pocket expenses incurred in connection with the performance of their duties.

Conflict of Interest

The Corporation conducts annual reviews for potential conflicts of interest in known or potential transactions with members of the Board and its committees or officers. It is the policy of the Corporation that no such person may participate in the approval of a transaction in which he or she has a financial interest. Management of the Corporation believes that transactions approved in this manner are conducted on an arm's length basis.

Management

The Board has delegated responsibility for the daily operations of the Corporation to the President of the Corporation and his management team. The President has the necessary authority and responsibility to operate the business of the Corporation in all of its day-to-day activities, subject to such policies as may be adopted and such orders as may be issued by the Board. Key management positions and summary biographical information for the officers currently holding those positions are listed below.

Todd S. Murch, President and CEO of Eskaton (age 47). Mr. Murch joined Eskaton in 1981 and has held the positions of Accounting Manager, Divisional Controller for Skilled Nursing, Corporate Controller and Chief Financial Officer of the Parent, in addition to Executive Director of Operational Support Services at the Corporation. Mr. Murch held the Chief Financial Officer title for 10 years prior to his current position. Mr. Murch assumed his current role of President and CEO in 2002. As an officer of the Corporation, he has overall leadership responsibility. He also serves as an ex-officio member of the Board of Directors. Through his prior and current roles at the Parent, Mr. Murch is experienced in mergers, acquisitions, divestitures, debt financing, strategic planning, feasibility studies and development of new facilities. Mr. Murch is a member of the Hospital Financial Management Association ("HFMA"), CAHSA, the Roseville Chamber Commerce, and serves as a board member on the Boy Scouts of America Golden Empire Council. He holds a degree in Business Administration from California State University, Sacramento, California, and recently completed the "Stanford Executive Program" at Leland Stanford University, Palo Alto, California.

Brian R. Uhlir, Vice President of Finance, CFO (age 52). Mr. Uhlir became the Chief Financial Officer of the Parent in October 2002. He is responsible for the areas of Finance, Treasury, Legal, Risk Management, Human Resources, Information Systems, and Central Purchasing. Previously Mr. Uhlir was the Chief Financial Officer and Senior Vice President of Elder Care Alliance, an affiliate of Catholic Healthcare West headquartered in Oakland, California. Mr. Uhlir has held key finance positions in several major California medical centers, including John Muir Medical Center, Alta Bates Corporation and Mt. Diablo Medical Center where he served as Vice President of Finance for 10 years. Mr. Uhlir has an extensive background in healthcare finance and accounting and has engaged in multiple bond financings in the healthcare and senior industries. He holds a B.A. degree in Economics and Business Administration from North Central College in Illinois and a Masters Degree in Public Health from the University of California at Berkeley. Mr. Uhlir recently has accepted another financial position in the senior housing and care industry and will be leaving the Eskaton Group in order to pursue this opportunity. Effective December 9, 2005, Mr. Uhlir left the organization to pursue this opportunity.

Constance T. Batterson, Vice President, Brand Management (age 63). Ms. Batterson joined the Parent in 1981 as Community Representative. Since that time, she has held positions at the Parent and the Corporation of Special Projects Coordinator, Director of Research and Market Development, and Executive Director of Planning and Marketing. She is currently the Vice President of Brand Management. In this capacity, she is responsible for corporate-wide strategic planning functions, market research and feasibility studies for retirement housing, long-term care, community-based and home delivered services, coordination of site selection and land use entitlements for new developments,

coordination of consulting activities for external clients, corporate communications and public relations activities. Ms. Batterson is active in both AAHSA and CAHSA, and has participated in the development of a national assisted living prototype facility. Locally, she is a member of the Sacramento County Adult and Aging Commission and the Sacramento Valley Chapter of the American Marketing Association. She is a frequent speaker on the subjects of interest to seniors and their adult children. She holds a Master's Degree from the University of Nebraska in Applied Sociology.

Trevor A. Hammond, Vice President Operations, COO. (age 68). Mr. Hammond holds a Bachelor of Business Administration in Economics from St. Mary's University and a Masters of Business Administration Degree from the University of Utah. His numerous additional educational courses include: Management Program for Executives at the University of Pittsburgh and the John F. Kennedy Senior Managers in Government Program, Harvard University. He retired as a three-star general from a career of over 30 years in the United States Air Force. His last assignment was in the Pentagon as the Deputy Chief of Staff for Air Force Logistics. He has over 6,000 pilot hours, numerous commander positions with major infrastructure, support, budget, personnel, and strategic planning responsibilities. He served as a consultant for management, organizational and aviation issues before joining the Parent in 1994. As the Vice President of Operations, he is responsible for budgeting, planning, marketing, personnel management, public relations and quality service for residents of all Eskaton facilities and programs with the exception of community services. He is a member of the Eskaton Senior Executive Management Committee and is actively involved in corporate strategic planning. He is a member of several professional and community organizations.

Raymond W. Gee, Director of Development (age 62). Mr. Gee has been with Eskaton for 35 years, having joined the company in 1970 as corporate accountant. Prior to that time, he served four years as an internal auditor and consultant to credit unions in Northern California. He conducted both financial and management audits of credit unions having total assets of \$2 million to \$18 million. Since joining the Eskaton Group, he has held the positions of Controller, Director of Finance/Corporate Analysis, and Assistant Director of Long-Term Care Services. His expertise covers financial and operational management services for acute hospitals, skilled nursing facilities, home health agencies, assisted living facilities, congregate care facilities, and senior independent living facilities. In 1994, he assumed the role of Executive Director, HUD Housing Group. In this capacity, he is responsible for the successful development and operation of the Parent's low-income elderly housing facilities. He is an active member of AAHSA and CAHSA. He received his Bachelor of Arts Degree in Accounting from California State University, Hayward, and is a Certified Assisted Housing Management Professional.

Lynette Tidwell, Director, Community Services (age 57). Ms. Tidwell received her Bachelor of Science Degree in Nursing from Biola University, La Mirada, California, in 1971. She joined the Eskaton Group in 1984 as a Discharge Planning Registered Nurse for Eskaton American River Hospital. Since moving to the Eskaton Administrative Center in 1989, she has held the positions of Community Liaison Nurse and Director of Referral Services. In her present position as Director of Community Services, she is responsible for Eskaton's free community outreach programs, Eskaton-wide visibility events, case management services, out-of-home placement assistance programs, and volunteer services. She has demonstrated skills in program planning and development, volunteer training and recruitment, geriatric nursing and assessment, community services advocacy, and public speaking. She is a member of the Board of Directors of the Del Oro Regional Resource Center for Brain-Impaired Adults, the Aging Committee of the Sacramento County Mental Health Board, the External Advisory Committee of the Center for Aging and Health at University of California at Davis, the Advisory Board of the Sacramento County Retired Senior Volunteer Program, and the Adult Day Care for El Dorado County Committee. Her professional associations include the American Society on Aging, the Alliance of Information and Referral Services, and the Association of Work Life Professionals.

THE OBLIGATED GROUP'S FACILITIES AND SERVICES

Upon the issuance and delivery of the Series 2005 Bonds, the Obligated Group's facilities and services will include one continuing care retirement community, one congregate and assisted living facility, three freestanding SNFs, two assisted living facilities, an independent living facility, a homecare operation, and development and management services for the existing HUD Housing Projects and other managed projects. Following is a description of each facility owned and operated by the Obligated Group.

Skilled Nursing Facilities (SNFs)

General. The Corporation owns three freestanding SNFs, with a total licensed capacity of 396 beds. All facilities are licensed by California's Office of Statewide Health Planning and Development ("OSHPD") as skilled nursing facilities and are Medicare and Medi-Cal certified. These facilities provided 24-hour skilled nursing care to patients in a post-acute setting. Services include care of multiple chronic illnesses, complex medical care and post-acute rehabilitation (speech, occupational and physical therapy). Other services included are social services, patient and family education, administration of medication, housekeeping services, recreational activities and, from time to time, assistance in making health care appointments.

Residents who enter one of the Corporation's skilled nursing facilities receive a comprehensive evaluation to determine the services needed. A flexible treatment plan is then assembled by a multidisciplinary team, including the resident's doctor, nurses, pharmacists, physical, speech, occupational therapists, social workers, dietitians and certified nursing assistants. With resident and family input, goals are established for attaining maximum independence. Each resident's progress is reviewed regularly and, if needed, the plan is revised to provide optimum results.

The Corporation's SNFs provide 24-hour nursing care, personal care and aggressive rehabilitation programs in a dynamic setting. Short-term, long-term and respite care are available. The Corporation's SNFs employ a full-time activity and social services staff that responds to the recreational, psychosocial and spiritual needs of residents.

Each resident, or his or her legal designee, sign an admission agreement upon entering one of the Corporation's SNFs. The facilities admit residents only on physician's orders and accept and retain only those residents for whom they can provide adequate care.

The Corporation owns and operates the following three skilled nursing facilities:

Eskaton Care Center Manzanita ("ECCM") is a 99-bed skilled nursing facility located at 5318 Manzanita Avenue in Carmichael, California, less than one half mile from the Corporation's corporate offices and one half mile from a major referral hospital. The facility maintains a 36-bed Medicare Certified Distinct Part unit ("CDP"), which provides higher acuity, sub-acute services to patients requiring an enhanced level of skilled nursing services. The CDP requires a significantly higher percentage of licensed nursing personnel and maintains a lower patient-to-staff ratio than the sustaining units. Care in the CDP is provided under the supervision and oversight of a registered nurse unit manager ("RNUM"). Patients served by the CDP generally have a shorter average length-of-stay in the facility, present with more complex medical issues, and are admitted under either Medicare or a managed care program.

Eskaton Care Center Fair Oaks ("ECCFO") is a 149-bed skilled nursing facility located at 11300 Fair Oaks Boulevard in Fair Oaks, California, in a park-like setting, less than five miles from the Corporation's corporate offices. ECCFO provides four separate and distinct nursing environments, each of which is connected to the central service core by windowed walkways. ECCFO maintains a 75-bed CDP and an extensive physical rehabilitation program to facilitate a resident's recovery from a variety of post-acute events. Clinical sub-acute services are coordinated by a facility case manager and provided under the supervision of an RNUM. These sub-acute residents generally have a shorter length of stay in the facility, more complex medical issues, and are admitted under either Medicare or a managed care program.

Eskaton Care Center Greenhaven ("ECCG") is a 148-bed SNF located on the shores of Greenhaven Lake at 455 Florin Road in Sacramento, California, less than 30 minutes from the Corporation's corporate offices. ECCG has been designed to provide four separate nursing environments, including sub-acute care, Alzheimer's specialty-care and two long-term skilled nursing units. ECCG maintains a 38-bed CDP. ECCG also maintains a 34-bed medical-model Alzheimer's specialty-care program. Each nursing "neighborhood" maintains a selected staff of professionals with experience in the specialty program being provided. Clinical sub-acute services are coordinated by the facility case manager and provided under the supervision of an RNUM. The facility serves the south Sacramento area, including the University of California at Davis, Davis Medical Center and a Kaiser Permanente Hospital.

Continuing Care Retirement Community

Eskaton Village, Carmichael ("EVC") is a multilevel facility offering independent living, assisted living for those residents needing assistance with two or more activities daily living and residents with cognitive impairments, as well as skilled nursing for all other residents. EVC is located on a 34-acre parcel of land in Carmichael, California and comprises 201 one- and two-bedroom independent living apartments, 94 one-, two-, and three-bedroom cottages, 38 personal care units, 35 skilled nursing beds, 20 special care units for cognitively impaired residents and a core building called the "Village Center" for the provision of community services and amenities.

Individuals seeking residence in EVC's apartments or cottages pay a membership fee and sign a membership agreement that has been approved by the Continuing Care Contracts Branch of the California Department of Social Services. During the first ninety days of occupancy, residents may cancel their membership agreement and receive a refund of the membership fee. After the ninety-day period, the membership fee is refundable only from proceeds of a resale of the membership. The Administrator of EVC manages the process of reselling memberships on behalf of residents. A resident may resell his or her membership only to another qualified individual as determined by the Corporation, and the Corporation receives a transfer fee equal to 10% of the sales price capped at a maximum of 10% of the original membership fee amount. Appreciation in excess of the original membership fee amount is shared equally between the resident and the Corporation.

In addition to the membership fee, residents of the apartments and cottages are charged monthly service fees, which are used to pay routine operating expenses of EVC.

Residents of the apartments and cottages are transferred to the assisted living and skilled nursing levels of care based on an assessment made by a multidisciplinary team. Additional fees are charged to residents for services rendered in the assisted living and skilled nursing units, a major portion of which may be defrayed by coverage under a MetLife long-term care group policy.

The Corporation is obligated to provide future services and the use of the EVC facility to the residents. Residents are charged monthly maintenance fees that are used to pay routine operating

expenses of the continuing care retirement community. Management has determined that the value of deferred membership fees and future monthly fees exceed the present value of the net cost of future services and use of the facility and, therefore, has not recorded a liability.

The California Department of Social Services requires that the Corporation determine whether statutory reserves are necessary to ensure that it will be able to fulfill contractual obligations to residents. Management has determined that projected revenues plus liquid assets exceed projected expenditures and, therefore, has no statutory reserve requirement.

Membership fees, which were only paid by the initial resident of each housing unit upon entering into a re-sellable continuing care contract, are recorded as deferred revenue. Such deferred revenue is amortized to income using the straight-line method over the estimated remaining life of the facility. The Corporation's share of appreciation in excess of the original membership fee amount earned upon the resale of a membership from one resident to another qualified individual is recorded as deferred revenue and is amortized to income using the straight-line method over the estimated remaining life of the facility. Transfer fees earned upon the resale of a membership are recorded as revenue in the period earned.

The admission criteria for EVC are: (1) individuals or one person of a couple must be at least 62 years of age, and (2) prospective members must pass both a financial screening and a health screening.

EVC is licensed by three separate agencies: (1) Department of Social Services, Continuing Care Contracts Branch for its continuing care retirement community license, (2) Department of Health Services for the skilled nursing facility license, and (3) Department of Social Services for the Residential Care Facility for the Elderly ("RCFE") license for assisted living.

For more information about the assisted living services offered at EVC, see "**Assisted Living – General.**" For more information about the skilled nursing services offered at EVC, see "**Skilled Nursing Facilities – General.**"

Congregate and Independent Living

General. The Corporation offers services in both congregate and independent settings. Congregate living is similar to independent living, but also includes services such as dining, activities, housekeeping and transportation. The only admission criteria is a minimum age of 62 years. Residents at the Corporation's congregate and independent living facilities enter into leases. Rents are fixed and adjusted annually. There are no licensing requirements for these facilities.

Congregate Housing. **Eskaton Monroe Lodge** ("EML") is a 101-unit high-rise apartment complex located in Sacramento, California. The facility is a congregate care apartment complex. In addition to offering studio, duplex and one-bedroom apartment units, the facility provides at least one meal per day to each of the residents. Weekly housekeeping and transportation services, lounges, laundry rooms, a common dining room, and an outdoor spa are all amenities covered by the monthly rent and service fees. There are no government subsidies that assist the residents with payments of rent and service fees.

Eskaton Village Grass Valley ("EVGV") operates as both a congregate care and assisted living facility including 80 apartments for congregate care and 57 assisted living units. EVGV is located in Grass Valley, California.

Independent Living. **Eskaton Henson Manor** ("EHM") is an 80-unit apartment complex located in Sacramento, California. The complex contains several two-story apartment clusters set on landscaped grounds of approximately 4.5 acres, and is surrounded by wood and wrought iron fences. Each of the units is 604 square feet with a full kitchen, dining area, living room, bedroom, and a bathroom with a combined tub and shower. The complex also includes a community room with full kitchen, two laundry rooms, and a business office. Section 8 vouchers are accepted toward payment of the monthly rents.

Assisted Living

General. The Corporation's assisted living facilities provide the independence of a private apartment, plus the assistance needed with activities of daily living. The personal services provided to residents in these facilities include bathing, dressing, grooming, medication management, dining, activities, transportation and housekeeping.

Upon entrance, each resident's needs are evaluated and a service plan is developed. Periodically, the plan is reviewed to ensure an appropriate package of services is provided for continued resident success. The admission criteria are: (1) a minimum age of 60 years, (2) health screening, and (3) a financial screening.

The assisted living rents are determined based on four levels of care ranging from minimal to no assistance up to complete dependence on staff for personal care and health care monitoring. Where special care units for the cognitively impaired are available, rates are comparable to that in the Corporation's skilled nursing facilities.

The Eskaton Group's assisted living facilities are licensed by the Department of Social Services under the designation of Residential Care Facility for the Elderly (RCFE).

Eskaton Village Grass Valley operates both as an ALF and a congregate care facility, consisting of 57 assisted living units and 80 congregate care units in Grass Valley, California.

Eskaton Lodge Cameron Park ("ELCP") is an Assisted Living Facility ("ALF") located in the foothills approximately 35 miles east of Sacramento. ELCP consists of 49 studio apartments with large bathrooms and a limited number with individual kitchenettes. The common areas of ELCP include a large modern kitchen, a large community living room, a beauty parlor, a laundry, activity rooms, park-like grounds and picnic areas.

Eskaton Gold River Lodge ("EGRL") is an ALF located in Gold River, California. EGRL consists of 72 one-bedroom apartments with kitchenettes for assisted living and a 23-resident living for memory care. The common areas of EGRL include a large modern kitchen, a large dining room and smaller private dining room, a country kitchen in each wing, a beauty parlor, a laundry, activity rooms, park-like grounds and picnic areas. The memory care wing has enhanced security and its own common areas.

Homecare Services

Homecare enables an ill or injured person to remain at home or to return home soon from the hospital or nursing home.

The Eskaton Group's team of professionals providing home care services includes registered nurses, physical therapists, speech pathologists, occupational therapists, medical social

workers, home health aides and homemakers/live-ins. Services provided include rehabilitation, IV therapy, elder care, bath service, hospice support services and respite care, meal preparation and transportation.

Under Medicare guidelines, patients must meet certain criteria, including a physician order for service, in order to qualify for coverage. As a provider, the Corporation must maintain records and documentation in accordance with Medicare requirements, and make these available for review and audit. Medicare allows the Corporation to recover a share of corporate overhead, but does not allow the Corporation to earn a "profit from operations." The Corporation's homecare services are certified by Medicare.

Eskaton Homecare ("EH") is a Medicare provider. This entity provides in-home services to Medicare patients under established Health Care Financing Administration guidelines and payment standards. EH offers patients a variety of services including licensed nursing care and therapy, social work and home health aides. EH is headquartered in a rental office in Carmichael, California, where all scheduling, supervisory oversight and record-keeping takes place.

EH is licensed by the Department of Health Services.

Corporate Headquarters and Other Activities

The Corporation owns a 27,000 square foot administrative center situated on 4.7 acres in Carmichael, California, from which various general administrative, finance, legal, accounting, billing, credit and collection, data processing, human resources and community relations activities are conducted.

The Corporation currently owns 52 acres of real estate for future development in Roseville, California. The Corporation is selling 42 acres of the Roseville land to a home builder and plans to develop a retirement community including independent, assisted living and skilled nursing on the remaining land. The combined development, which will also offer for purchase approximately 300 age-restricted homes, will provide a campus-like setting for seniors. As part of the land sale, Eskaton expects to receive approximately \$25 million in cash. The land sale proceeds are expected to be used to repay a \$6 million loan secured by the land, cover certain costs of the Roseville development project and provide a reserve for liquidity and future development approximately \$15 million.

The following table is a summary of the Obligated Group's facilities and current number of units:

<u>Facilities</u>	<u>Location</u>	<u>Approximate Size in Square Feet</u>	<u>Level of Care</u>	<u>Number of Beds/Units</u>	<u>Year Constructed</u>
ECCG	Sacramento	46,000	Skilled Nursing	148	1978
ECCFO	Fair Oaks	57,000	Skilled Nursing	149	1981
ECCM	Carmichael	30,000	Skilled Nursing	99	1977
EVC	Carmichael		CCRC		1992
		283,000	Apartments	201	1992
		105,000	Cottages	94	1992
		29,000	Assisted Living	38	1992
		11,000	Assisted Living	20	1999
			Special Care		
		17,000	Skilled Nursing	35	1992
EVG	Grass Valley	135,000	Apartments	80	2000
		25,000	Assisted Living	57	2000
EHM	Sacramento	51,000	Independent Living	80	1974
EML	Sacramento	91,000	Independent Living/ Congregate-Care	101	1973
EGRL	Gold River	83,000	Assisted Living	95	1998
ELCP	Cameron Park	22,000	Assisted Living	49	1999

Source: The Corporation

THE PROJECT

A portion of the proceeds of the Series 2005 Bonds will be used to refinance existing indebtedness incurred by EVGV and EGRL through two, tax-exempt bond issues. The remainder of the proceeds will be used to (i) reimburse the Corporation for capital improvements and fund future capital expenditures of the Obligated Group, (ii) fund a debt service revenue fund, and (iii) pay certain costs of issuance of the Series 2005 Bonds, including payment of a premium for bond insurance. See "**PLAN OF FINANCE**" in the forepart of this Official Statement.

OCCUPANCY AND PAYER MIX

The tables below highlight the occupancy and payer mix for the Members of the Obligated Group:

Historical Occupancy by Facility and by Level of Care

Facility	# of Units September 2005	2002		2003		2004		September 30, 2005	
		Avg. Daily Census	%	Avg. Daily Census	%	Avg. Daily Census	%	Avg. Daily Census	%
ECCM	99	92.50	93%	90.93	92%	87.69	89%	86.97	88%
ECCFO	149	138.33	93%	136.71	92%	130.64	88%	135.04	91%
ECCG	148	135.29	91%	130.55	88%	137.54	93%	137.10	93%
EVC-SNF	35	28.96	97%	30.01	94%	32.68	93%	33.69	96%
EVC-ALU	38	37.07	98%	36.24	95%	36.10	95%	36.40	96%
EVC-SCU	20	17.91	89%	17.98	89%	17.98	89%	18.71	93%
EVC-ILU	295	369.02	100%	387.13	100%	380.61	100%	379.17	100%
EML	101	104.27	99%	107.53	99%	105.46	99%	104.22	98%
EHM	80	79.28	108%	80.83	99%	81.32	99%	79.98	99%
EGRL	95	93.42	97%	90.72	95%	92.60	96%	90.26	95%
EVGV-ILU	80	42.04	37%	67.91	65%	91.66	93%	92.95	95%
EVGV-ALU	57	47.89	25%	98.94	60%	138.93	89%	148.10	97%
ELCP	49	50.82	98%	46.24	93%	48.01	97%	47.26	97%

Source: The Corporation

Payer Mix by Facility, by Number of Actual Patients and by Payer Source

<u>Facility</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>September, 2005</u>
<i>ECCM</i>				
Private	24%	21%	20%	14%
M-Care	8%	7%	7%	9%
M-Cal	56%	53%	56%	54%
Managed Care	<u>12%</u>	<u>19%</u>	<u>17%</u>	<u>23%</u>
Total	100%	100%	100%	100%
<i>ECCFO</i>				
Private	17%	16%	15%	13%
M-Care	8%	7%	8%	6%
M-Cal	59%	59%	60%	61%
Managed Care	<u>16%</u>	<u>18%</u>	<u>17%</u>	<u>20%</u>
Total	100%	100%	100%	100%
<i>ECCG</i>				
Private	20%	23%	17%	18%
M-Care	7%	8%	6%	5%
M-Cal	56%	59%	63%	60%
Managed Care	<u>17%</u>	<u>10%</u>	<u>14%</u>	<u>17%</u>
Total	100%	100%	100%	100%
<i>EVC – SNF</i>				
Private	83%	84%	82%	83%
M-Care	6%	10%	9%	8%
M-Cal	3%	0%	1%	3%
Managed Care	<u>8%</u>	<u>6%</u>	<u>8%</u>	<u>6%</u>
Total	100%	100%	100%	100%

All other facilities within the Obligated Group are 100% private pay.

Source: The Corporation

The following table highlights turnover at EVC:

Turnover History – EVC

	<u>Number of Units</u>	<u>Permanent Transfer</u>	<u>Deaths</u>	<u>Move Out</u>
Fiscal Year 2004	295	12	26	25
2005 through 9/30/2005	295	14	29	13

SCHEDULE OF FEES AND CHARGES

The following table provides information regarding fees and charges to residents of EVC, the Corporation's continuing care retirement community.

<u>Units</u>	<u>Number of Units</u>	<u>Approximate Sq. Ft.</u>	<u>Membership Price*</u>	<u>2005 Monthly Fee*</u>
Apartments:				
One bedroom, one bath	6	649	\$115,000	\$2,386
One bedroom, one bath	15	662	\$120,000	\$2,386
One bedroom, one bath	1	781	\$130,000	\$2,386
One bedroom, one bath	24	704	\$130,000	\$2,577
One bedroom, one bath	7	733	\$130,000	\$2,577
One bedroom, one bath	8	809	\$140,000	\$2,577
One bedroom, den, 1.5 baths	24	938	\$180,000	\$2,768
Two bedrooms, two baths	21	1024	\$220,000	\$2,960
Two bedrooms, two baths	11	1078	\$230,000	\$3,048
Two bedrooms, two baths	29	1014	\$220,000	\$2,960
Two bedroom, two baths	11	1302	\$265,000	\$3,397
Two bedroom, two baths	1	1356	\$275,000	\$3,397
Two bedroom, two baths	13	1323	\$270,000	\$3,397
Two bedroom, den, two baths	5	1408	\$280,000	\$3,572
Two bedroom, den, two baths	11	1413	\$280,000	\$3,572
Two bedroom, den, two baths	14	1356	\$280,000	\$3,572
Cottages:				
One bedroom, one bath	5	1038	\$225,000	\$3,048
Two bedroom, two baths	49	1282	\$270,000	\$3,363
Three bedroom, two baths	19	1525	\$360,000	\$3,659
Three bedroom, two baths	<u>21</u>	1569	\$370,000	\$3,659
	295			
Second person fee				\$786

* As of November 1, 2005.
Source: The Corporation

As discussed in more detail under "**THE OBLIGATED GROUP'S FACILITIES AND SERVICES – Continuing Care Retirement Community**," the membership price is negotiated between the prospective resident and the selling resident. The Corporation receives 10% of the original purchase price, or the selling price, whichever is less. Any appreciation is shared equally between the selling resident and the Corporation. Average membership price appreciation of the units sold was \$47,199 and 44,626 in 2004 and 2005, respectively. Monthly fees increased by .5% in each of the years 2004 and 2005. The increase in 2006 is anticipated to be 4.25%.

As of September 30, 2005, EVC had approximately 142 potential residents on the waiting list for EVC. The average waiting time for a prospective resident on the waiting list is approximately three years.

COMPETITION AND RATES

Skilled Nursing Facilities

The Corporation has three skilled nursing facilities in northeast Sacramento County. These facilities and their competitors are listed below. The majority of rooms in the Corporation's facilities are semi-private. The competitive room rates listed below are for standard private and semi-private rooms providing extended care services not covered by Medicare or other health insurance plans.

Competitors in Northeast Sacramento County

<u>Facility</u>	<u>Private/Semi-Private Room Rate/Day</u>
Eskaton Valley, Carmichael* Carmichael, California	\$268/\$225
Eskaton Care Center Manzanita* Carmichael, California	\$226/\$179
Eskaton Care Center Fair Oaks* Fair Oaks, California	\$280/\$190
Gramercy Court Sacramento, California	\$268/\$210
Manor Care Citrus Heights, California	\$262/\$214
Mission Carmichael Carmichael, California	N/A/\$155

* Facility owned and operated by the Corporation.

The Corporation has one skilled nursing facility in southern Sacramento County. That facility and its competitors are listed below. The majority of rooms in these facilities are semi-private. The room rates listed below are for standard private and semi-private rooms providing extended care services not covered by Medicare or other health insurance plans.

Competitors in Southern Sacramento County

<u>Facility</u>	<u>Private/Semi-Private Room Rate/Day</u>
Eskaton Care Center Greenhaven* Sacramento, California	\$250/\$180
Asian Community Nursing Home Sacramento, California	\$198/\$186
Bruceville Terrace Sacramento, California	\$265/\$250
Saylor Lane Sacramento, California	\$170/\$152
Sherwood Health Care Sacramento, California	N/A/\$152

* Facility owned and operated by the Corporation.
Source: The Corporation

Continuing Care Retirement Communities

University Retirement Community at Davis (URCAD) is the only continuing care retirement village nearby to EVC, located approximately 30 miles from EVC. After URCAD, the nearest existing continuing care retirement communities are 60 or more miles away in Fairfield, Santa Rosa, the San Francisco Bay area, Turlock, Fresno and more distant areas as shown in the following table:

<u>Location</u>	<u>Facility</u>	<u>Distance from Carmichael (approx.)</u>
Davis	URCAD	30 miles
Fairfield	Paradise Valley (Military)	60 miles
Turlock	Covenant Village	85 miles
San Francisco Area	Numerous facilities	90 or more miles
Santa Rosa	Spring Lake Village	105 miles
Fresno	San Joaquin Gardens	165 miles

Source: The Corporation

The following table compares the fees and charges of EVC to those of URCAD:

	<u>The Village</u>	<u>URCAD</u>
Entry Fee Type	Deposit / Membership Entry Fee	Entry Fee
Entry Fee Range	\$2,500 / \$115,000-\$370,000	\$75,246-\$347,520
Residence sizes	662 sq. ft. - 1,569 sq. ft.	563 sq. ft. - 1,757 sq. ft.
Monthly fees - one person	\$2,386-\$3,659	\$2,280-\$3,158
Monthly fees - second person	\$786	\$727

Source: The Corporation

Congregate Housing

The Corporation has one congregate housing facility in the greater Sacramento area. EML is a 30 year old, 101 unit building in the Land Park neighborhood of Sacramento. Although there are numerous comparable facilities in the Sacramento area, EML has consistently maintained occupancy level of at least 98.5% over the past five years. Key competitors are listed in the table below with fees noted for one-bedroom apartment units, the predominant type of residence in these settings.

<u>Facility</u>	<u>One-Bedroom Apartment Monthly Fee - One Person</u>
Eskaton Monroe Lodge* Sacramento, California	\$2,641
Campus Commons Sacramento, California	\$2,195
Merrill Gardens at Greenhaven Sacramento, California	\$2,030
River's Edge Sacramento, California	\$2,789

* Facility owned and operated by the Corporation.
Source: The Corporation

Rental Retirement Community

EVGV is a new rental retirement community, which opened in 2002. The following table summarizes key competitors of EVGV and their respective rental rates.

<u>Facility</u>	<u>Monthly Fee One-Bedroom Apartment or Suite⁽¹⁾</u>
EVGV* Grass Valley, California	\$2,590-\$3,045
Quail Ridge Senior Living Grass Valley, California	\$2,460-\$3,055
HighGate Senior Living Grass Valley, California	\$3,100

* Facility owned and operated by EVGV. It is anticipated that EVGV will become a Member of the Obligated Group simultaneous with the issuance of the Series 2005 Bonds.

(1) Suite refers to a two-room unit without a kitchen or kitchenette.

Source: The Corporation.

Assisted Living Facilities

Overview. The greater Sacramento area has a large supply of older "dormitory-style" assisted living facilities offering private and semi-private rooms as well as a large number of smaller board-and-care homes. None of these are considered competitors of the Eskaton Group's properties. Larger, newer (or extensively remodeled) facilities offering apartment-style accommodations are fewer in number, but are concentrated in the suburban areas of northeast Sacramento County and south Placer County (Roseville area). The Corporation's competitors in this category are listed below.

<u>Facility</u>	<u>Monthly Fee One-Bedroom Apartment or Suite⁽¹⁾</u>
EVC* Carmichael, California	\$4,186
ELCP* Cameron Park, California	\$2,845
EGRL* Gold River, California	\$3,210-\$5,608
Carlton Plaza of Sacramento Sacramento, California	\$3,195-\$3,895
Gramercy Court Sacramento, California	\$2,466-\$3,408
Loyalton of Folsom Folsom, California	\$2,900
Merrill Garden Citrus Heights, California	\$1,750-\$3,325
New West Haven II Cameron Park, California	\$3,100-\$4,200
Sunrise of Fair Oaks Fair Oaks, California	\$137-\$152 per day (room & board) \$28-\$62 per day (for care)

* Facility owned and operated by the Corporation.

(1) "Suite" refers to a two-room unit without a kitchen or kitchenette.

Source: The Corporation

Assisted Living – Cognitive Impairment. Some assisted living facilities have been designed specifically for persons with significant cognitive impairment resulting from Alzheimer's disease, Parkinson's disease, stroke, and other causes. These settings typically offer private rooms or suites in small clusters with common areas that support the particular needs of these individuals. More intensive staffing, specializing staff training, unique activity programming and other factors typically result in higher fees for these services when compared to fees for services for the frail elderly. The Eskaton Group's assisted living facilities offering services in this category and their competitors are included in the table below.

<u>Facility</u>	<u>Monthly Fee Private Room or Suite</u>	<u>Comments</u>
EVC* Carmichael, California	\$4,186	Opened in May 1999 Part of CCRC Four service levels
EGRL* Gold River, California	\$4,579-\$5,874	Opened in June 1999 Four service levels
Fountainwood Orangevale, California	\$4,685	Two service levels
Loyalton of Folsom Folsom, California	\$2,350 - \$3,800	Two service levels
Somerford Place Roseville, California	\$4,410 - \$5,700	Five service levels

* Facility owned and operated by the Corporation.
Source: The Corporation

Homecare Services

The Sacramento area has numerous home health agencies, which provide intermittent skilled nursing and therapy services under reimbursement from Medicare, managed care health plans and other health insurance plans.

Each of the major Sacramento-area hospital groups (including Mercy Healthcare Sacramento, Sutter Health System, Kaiser, and the University of California Davis – Medical Center) has its own home health agency. Some of the other home health agencies belong to national firms while others are local, independent companies. Medicare, private insurance and HMO's provide insurance coverage for homecare services.

**PRO FORMA SELECTED FINANCIAL INFORMATION
OF THE PROPOSED OBLIGATED GROUP**

Pro Forma Financial Information of the Obligated Group

The following tables set forth pro forma unaudited information with respect to the fiscal years ended December 31, 2003 and 2004 of the Obligated Group as if EVGV had become a Member of the Obligated Group. The unaudited pro forma amounts have been derived from the audited financial statements of Eskaton and Subsidiaries appearing in **APPENDIX B** of this Official Statement. The Corporation has prepared the comparative pro forma unaudited financial information for the nine months ended September 30, 2004 and 2005. All dollars are presented in thousands within this Section. The following financial information is unaudited.

BALANCE SHEET**PROPOSED OBLIGATED GROUP
ASSETS
PRO FORMA UNAUDITED**

	<u>As of December 31,</u>		<u>As of September 30,</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Assets			
Current Assets:			
Cash and cash equivalents	\$6,487	\$4,953	\$4,710
Assets limited as to use	824	1,762	2,834
Investments	6,241	6,769	7,081
Accounts receivables, less allowance for uncollectible accounts of \$283 and \$227	3,367	3,197	5,577
Other receivables, less allowance for uncollectible accounts of \$870	996	1,057	0
Current portion of notes receivables	3,258	0	1,000
Due from related parties	150	5,929	8,313
Inventories	375	208	216
Deposits and prepaid expenses	0	500	673
CCRC deposits held in escrow			
Total current assets	<u>21,698</u>	<u>24,375</u>	<u>30,404</u>
Assets limited as to use, net of amount required for current liabilities	8,612	8,614	8,614
Investments	9,956	10,789	11,167
Property and equipment, net	88,448	85,147	83,028
Other Assets			
Unrecognized pension prior service cost	1,629	1,237	935
Deferred financing costs	2,904	2,771	2,715
Interest rate swap agreements	1,860	1,642	1,212
Deferred costs of acquiring initial CCRC membership contacts, net of accumulated amortization of \$1,571 and \$1,599	24	0	0
Investment in healthcare-related business	569	569	569
CCRC Associate member trust	5,066	4,607	4,883
Other	533	455	503
	<u>12,585</u>	<u>11,281</u>	<u>10,817</u>
Total Assets	<u>141,299</u>	<u>140,206</u>	<u>144,030</u>

**PROPOSED OBLIGATED GROUP
LIABILITIES AND NET ASSETS
PRO FORMA UNAUDITED**

	<u>As of December 31,</u>		<u>As of September 30,</u>
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Liabilities and Net (Liabilities) Assets			
Current Liabilities			
Current maturities of long-term debt	\$1,257	\$1,499	1,563
Current portion of deferred revenue from			
Unamortized CCRC membership fees	1,900	1,906	1,906
Deposit on unoccupied CCRC units	354	354	401
Accounts payable	1,521	1,045	741
Construction contracts payable	251		
Due to related parties	627	710	670
Estimated third-party payor settlements	27	1	0
Accrued liabilities:			
Payroll and payroll taxes	896	1,081	1,459
Vacation	874	840	842
Current portion of self-insured			
workers' compensation	1,265	1,357	1,625
Interest	463	636	1,102
Tails	774	1,174	1,072
Other	369	371	1,038
Total current liabilities	<u>10,578</u>	<u>10,974</u>	<u>12,419</u>
Other liabilities:			
Self-insured workers' compensation,			
Net of current portion	452	1,071	1,071
CCRC associate member trust	5,066	4,607	4,883
Interest rate swap agreements	7,307	5,032	2,292
Unfunded pension obligation	3,554	1,999	4,382
Other	1,605	1,441	1,509
	<u>17,984</u>	<u>14,150</u>	<u>14,137</u>
Long-term debt, less current maturities	102,261	100,739	99,411
Deferred revenue from unamortized CCRC			
Membership fees, net of current portion	29,585	28,212	27,360
Total Liabilities	<u>160,408</u>	<u>154,075</u>	<u>153,327</u>
Total net (liabilities) assets:			
Unrestricted	(19,118)	(13,879)	(9,310)
Temporarily restricted	9	10	13
Permanently restricted	0	0	0
Total net (liabilities) assets	<u>(19,109)</u>	<u>(13,869)</u>	<u>(9,297)</u>
Commitments and contingencies			
Total liabilities and net (liabilities)			
Assets	<u>141,299</u>	<u>140,206</u>	<u>144,030</u>

**PROPOSED OBLIGATED GROUP
STATEMENT OF OPERATIONS
PRO FORMA UNAUDITED**

	As of December 31,		Nine Months Ended September 30,	
	2003	2004	2004	2005
Unrestricted revenues, gains, & other support:				
Net patient service revenue	\$24,916	\$26,101	\$18,342	\$21,301
Residential service revenue	27,778	31,295	24,489	26,207
Investment income	603	2,015	474	1,650
Other, net	3,703	3,710	2,340	2,442
Change in fair value of hedging activities	(2,660)	2,085	559	2,617
Net assets released from restrictions used for operations	4	2	0	0
Total revenues, gains, & other support	<u>54,344</u>	<u>65,208</u>	<u>46,204</u>	<u>54,217</u>
Expenses:				
Salaries and wages	25,230	26,496	20,559	20,678
Employee benefits	8,220	8,480	5,163	5,667
Supplies	3,783	3,256	2,567	2,064
Purchased services and other	5,020	7,264	5,250	6,773
Ancillary costs	2,019	1,942	1,477	1,573
Insurance/taxes	517	585	390	255
Utilities	2,446	2,441	1,802	2,020
Building and equipment rental	30	41	29	29
Depreciation and amortization	5,369	5,285	3,972	3,958
Interest	6,228	6,346	4,636	4,608
Provision for uncollectible Accounts	103	62	54	33
Loss on disposal of property & equipment		31		
Total expenses	<u>58,965</u>	<u>62,229</u>	<u>45,899</u>	<u>47,658</u>
(Deficiency) excess of revenues, gains & other support over expenses	(4,621)	2,979	305	6,559
Change in net unrealized gains (losses) on Investment securities	2,068	689	110	(379)
Change in pension valuation	297	1,657		(1,610)
Transfers between related entities	(430)	(86)		
(Decrease) increase in unrestricted net (liabilities) assets	<u>(2,686)</u>	<u>5,239</u>	<u>415</u>	<u>4,570</u>
Unrestricted net (liabilities) assets, beginning of year	<u>(16,432)</u>	<u>(19,118)</u>	<u>(19,118)</u>	<u>(13,879)</u>
Unrestricted net (liabilities) assets, end of year	<u>(19,118)</u>	<u>(13,879)</u>	<u>(18,703)</u>	<u>(9,309)</u>

MANAGEMENT'S DISCUSSION

Results of Operations and Financial Condition for the Fiscal Year Ended December 31, 2003 versus December 31, 2004

Statement of Operations. Total revenues increased 10.7%, from \$54,344 for 2003 to \$65,208 for 2004. This increase was primarily related to the following factors:

- Net patient service revenue increased 4.76% from \$24,916 in 2003 to \$26,101 in 2004. This is due mainly to inflationary rate increases from governmental payers and negotiated rate increases from managed care payers along with normal fluctuations in occupancy and payer mix.
- Residential service revenue also increased from 2003 to 2004 by 12.66% from \$27,778 to \$31,295 due to the final stabilization of EVGV in 2004 as well as normal market-based rate increases in residential facilities.
- Investment income increased by 234.16% from \$603 in 2003 to \$2,015 in 2004 due to changes in market conditions and investment performance between 2003 and 2004.

Total expenses increased 5.4%, from \$58,965 for 2003 to \$62,229 for 2004. This increase was primarily related to the two expense categories discussed below:

- Salaries and wages increased 5.02% from \$25,230 in 2003 to \$26,496 in 2004 due primarily to cost-of-living and merit increases as well as a ramp-up of labor costs at EVGV due to occupancy stabilization between 2003 and 2004.
- Purchased services increased 44.7%, from \$5,020 in 2003 to \$7,264 in 2004 primarily due to the initiation of a dietary services agreement at EVC. EVC experienced a comparable reduction to salaries and benefits as these costs were transferred to the dietary services contractor.
- There was a 13.15% increase in insurance/taxes, from \$517 in 2003 to \$585 in 2004. A general tightening of insurance market conditions drove the increase.
- Building and equipment rental increased 36.67%, from \$30 in 2003 to \$41 in 2004.

The change in net assets for 2004 was an increase of \$5,239 compared to a decrease of \$2,686 in 2003. In addition to the changes in revenues and expenses discussed above, significant reasons for this increase relate to non-operating or one-time events, as discussed below:

- Net unrealized gains on investment securities, fair value of hedging activities, and pension valuations had gains in 2004 of \$689,\$2,085 and \$1,657, respectively.
- The Corporation engaged professional investment managers to invest the various segments of its portfolio. Investment managers during 2003 were holding their respective stock positions from the declines in 2000-2002 and saw a recovery in prices in 2003. There was a follow through in stock prices during 2004. Due to the

combined stock price recoveries in 2003 and 2004, the Corporation's investment managers sold some stock during 2004 and realized profits.

Balance Sheet. Total assets did not change significantly from 2003 to 2004. Total assets decreased from \$141,299 for 2003 to \$140,206 for 2004, a decrease of 0.77%. Significant changes to assets are as follows:

- Cash and cash equivalents decreased by 23.65% from a balance of \$6,487 in 2003 to a balance of \$4,953. This was due mainly to a final draw down of bond proceeds from the EVGV operating reserve in December 2003 and the timing of the reallocation of those monies from cash and cash equivalents to investments. There was also a reduction of current accounts payable between end of years 2003 and 2004 due to timing of payables.
- Assets limited as to use increased by 113.83% from \$824 in 2003 to \$1,762 in 2004 due to the timing differences of debt service payment due dates between the two years.
- Amounts due from related parties increased by 82% going from a balance of \$3,258 in 2003 to a balance of \$5,929 in 2004 primarily as a result of expenditures on the Roseville development project.
- Inventory balances increased by 38.67% from \$150 in 2003 to \$208 in 2004 due to the different timing of purchases in the various obligated group entities between 2003 and 2004.
- Unrecognized pension prior service cost is a series of bases that were set up as the result of amendments. Each year the balance decreases by the established amortization schedules. The Unrecognized pension prior service cost decreased by 24.06% from \$1,629 in 2003 to \$1,237 in 2004 due to current year amortization

Total liabilities decreased 3.95%, from \$160,507 for 2003 to \$154,174 for 2004. Total net assets increased by 27.28% from (\$19,208) for 2003 to (\$13,968) for 2004, largely due to improved operational performances and to the positive impact of the changing interest rate environment on swap valuations and improvements in the investment environment and its related impact on pension asset valuations.

- Accounts payable decreased by 31.30% from \$1,521 in 2003 to \$1,045 in 2004 due to the timing of routine payables between 2003 and 2004.
- Payroll and payroll taxes increased by 20.65% from \$896 in 2003 to \$1,081 in 2004 due to payroll timing differences between 2003 and 2004.
- Interest increased by 37.37% from \$463 in 2003 to \$636 in 2004 due to timing differences of payments due for bond indebtedness between 2003 and 2004.
- Tail liability insurance costs increased by 51.68% from a balance of \$774 in 2003 to \$1,174 in 2004 due to normal maturity of Eskaton's claims made under the general and professional liability insurance policies. The increase is due to Eskaton's claim profile at the end of each year, the maturing of claims that have fallen within the

claims made period, premium factors and other assumptions considered by the actuary in evaluating the tail liability. This is a non-cash expense.

- Self-insured workers' compensation, net of current portion, increased by 136.95% from \$452 in 2003 to \$1,071 in 2004 due to an increase in claims over the past 5 years. The liability for incurred but not reported (IBNR) is based on the historic average of claims for the past five years. As claims have steadily increased, the years with lower claims will no longer affect the calculation and the IBNR will increase.
- Interest rate swap liability decreased by 31.13% from \$7,307 in 2003 to \$5,032 in 2004 due to the effect of increasing interest rates on the fixed pay swap related to the SAVRS Bonds.
- Unfunded pension obligation decreased by 43.82% from \$3,554 in 2003 to \$1,999 in 2004 as a result of improvements in the investment environment on pension investments.

Results of Operations and Financial Condition for the Nine Months Ended September 30, 2004 versus Nine Months Ended September 30, 2005

Statement of Operations. Total revenues increased 13.05% from \$46,204 for 2004 to \$54,217 for 2005. This increase was primarily related to the following factors:

- Net patient service revenue increased by 16.13% or \$2,959, from \$18,342 in 2004 to \$21,301 in 2005. \$1,371 of the increase is due to the increase from Medi-Cal reimbursement resulting from the passage of California State Assembly Bill 1629. In addition, net patient service revenue increased due to a \$35 per day increase in the Kaiser rate, increased managed care rates and improvements in census at both Fair Oaks and Greenhaven facilities.
- Residential service revenue increased by 7.02% from \$24,489 in 2004 to \$26,207 in 2005. This was due to normal market-rate increases and the final ramp-up of occupancy at EVGV in 2004.
- Investment income increased by 248.10% from \$474 in 2004 to \$1,650 in 2005 due to changes in market conditions and investment performance.

Total expenses increased by 3.83% from \$45,899 for 2004 to \$47,658 for 2005. This increase was due to the following factors:

- Supply costs decreased by 19.59% from \$2,567 in 2004 to \$2,064 in 2005 due to the integration of food supplies into the dietary service contract at EVC. The expense for food supplies is now reimbursed to the service provider through contract payments, which has resulted in this savings.
- Eskaton's purchased services increased by 29.01% from \$5,250 in 2004 to \$6,773 in 2005 due to the inclusion of food expense at EVC in the dietary service contract (see above).
- Insurance/tax decreased by 34.62% from \$390 in 2004 to \$255 in 2005.

- Utilities increased by 12.10% from \$1,802 in 2004 to \$2,020 in 2005 due to inflationary increases and the final ramp up of occupancy at EVGV in 2004.
- Provisions for uncollectible accounts decreased by 38.89% from \$54 in 2004 to \$33 in 2005 due to collection efforts.

The change in net assets for 2005 was an increase of \$4,570 compared to an increase of \$415 for 2004, a \$4,985 improvement over 2004. In addition to the changes in revenues and expenses discussed above, significant reasons for this increase included non-operating or one-time events, as discussed below:

- Change in fair value of hedging activities for 2005 was \$2,617, due to increasing interest rates and the related impact on variable to fixed rate swaps.
- Eskaton's pension valuation decreased by \$1,610 over the nine months ended September 30, 2005 due to significant retirement payouts in 2005.

Comparison of Balance Sheet as of December 31, 2004 versus September 30, 2005

Total assets increased by 2.7% during this nine month period to \$144,030 on September 30, 2005. Significant changes to assets are as follows:

- Current assets limited as to use increased from \$1,762 to \$2,834 because of the timing of bond principal and interest payments.
- Current investments increased from \$6,769 to \$7,081 due to market fluctuations.
- Accounts receivable increased from \$3,197 to \$5,577 primarily due to the accrual of additional Medi-Cal revenue provided by AB 1629. AB 1629, a new law in California provided a substantial increase in Medi-Cal reimbursement. The reimbursement was partially funded with an offsetting bed tax, called a quality assurance fee, on all, not just Medi-Cal skilled nursing beds in California. The cost of this fee is matched by the federal Medicaid program to provide additional funding for the reimbursement rate.
- Due from related parties increased from \$5,929 to \$8,313 due to investments in the Roseville project.
- Deposits and prepaid expenses increased from \$500 to \$673 primarily because annual insurance policies are renewed in January.
- Investments increased from \$10,789 to \$11,167 due to market fluctuations.
- Net property and equipment decreased from \$85,147 to \$83,028 on September 30, 2005 due to recognition of depreciation expense, net of asset additions.
- Unrecognized pension prior service cost declined from \$1,237 to \$935 due to recognition of expenses.
- Interest rate swap agreements declined from \$1,642 to \$1,212 due to fluctuations in market values.

Total liabilities decreased by \$748 from \$154,075 on December 31, 2004 to \$153,327 on September 30, 2005. The following are explanations of significant variations:

- Current portion of self-insured workers' compensation increased from \$1,357 to \$1,625 due to recognition of expenses, net of claim payments.

- Accrued interest increased from \$636 to \$1,102 due to the timing of interest payments to bond holders.
- Other accrued expenses increased from \$371 to \$1,038 due to the accrual of quality assurance fees to be paid in accordance with AB 1629.
- Interest rate swap agreements declined from \$5,032 to \$2,292 due to fluctuations in market values.
- Unfunded pension obligation increased from \$1,999 to \$4,382 due to recognition of pension valuation adjustments at June 30, 2005 related to reduction of the discount rate.
- Long-term debt, less current maturities declined from \$100,739 to \$99,411 due to 1999 SAVRS principal payments made during May 2005.
- Deferred revenue from unamortized CCRC membership fees, net of current portion decreased from \$28,212 to \$27,360 due to revenue recognition, net of additions of 50% of 2005 resale gains.

Total net assets increased by \$4,572 from (\$13,869) to (\$9,297) on September 30, 2005. This improvement was due to improved operational performances and to the positive impact of the changing interest rate environment on swap valuations and improvements in the investment environment and its related impact on pension asset valuations.

Pro Forma Debt Service Coverage

The information in the following Pro Forma Historical Debt Service Coverage of the Corporation table for the proposed Obligated Group has been derived by the Corporation from the audited financial statements appearing in **APPENDIX B** of the Official Statement for the fiscal years ended December 31, 2003 and 2004. The unaudited Pro Forma financial statements for the proposed Obligated Group for the nine month periods ended September 30, 2004 and 2005 were prepared by the Corporation to show the proposed Obligated Group on a pro forma basis as it will exist after delivery of the 2005 Bonds. All of the information was also adjusted to include Maximum Annual Debt Service with respect to the 1999 SAVRS.

The Proposed Obligated Group's Maximum Annual Debt Service (\$000s)

Debt Instrument

1999 SAVRS	\$5,050
EAC Building Loan - Umpqua Bank	220
Lincoln Land Loan - Western Sierra Bank	121
Pilegaard/Other	59
Capitalized Lease	27
Proposed Series 2005 Bonds	2,778
TOTAL MADS	\$8,255

Pro Forma Debt Service Coverage Ratio for the proposed Obligated Group (\$000s)

<u>Period Ending</u>	<u>12/31/2003</u>	<u>12/31/2004</u>	<u>9/30/2004</u>	<u>9/30/2005</u>
Change in Unrestricted Net Assets	(\$2,686)	\$5,239	\$415	\$4,570
Amortized Membership Fees	(2,013)	(2,106)	(1,462)	(1,506)
Depreciation/Amortization	5,369	5,285	3,972	3,958
Interest	6,014	6,172	4,505	4,478
Other Non-Cash Expenses	533	179	(2)	33
Resold Membership Appreciation	392	739	465	654
Change in Unrealized (Gains) Losses	(2,068)	(689)	110	379
Change in Derivative Activity Value	2,660	(2,085)	(559)	(2,617)
Change in Pension Valuation	(297)	(1657)	0	1,610
Income Available for Debt Service (IADS)	\$7,904	\$11,077	\$7,444	\$11,559
Pro Forma Maximum Annual Debt Service (MADS)	\$8,255	\$8,255		
Pro Forma Debt Service for nine month period			\$6,191	\$6,191
Pro Forma Debt Service Coverage Ratio (DSCR)	0.96x	1.34x	1.20x	1.87x

As shown above, the income available for debt service has increased significantly, growing to \$11,559,000 for the nine month period ending September 30, 2005. In addition to the reasons highlighted in the discussion above, the following highlights in more detail two of the significant variables affecting this number:

- During 2003, EVGV was in fill up mode, with average occupancy for the year of 60.7%. This resulted in an operating loss for EVGV of \$1,020,222 in 2003. EVGV continued to fill up during 2004, with average occupancy improving to 89%. The improvement in occupancy reduced the operating loss of EVGV in 2004 to \$84,639. For the nine month period ending September 30, 2004, EVGV recorded an operating loss of \$84,910 with an average occupancy of 86.1%. For the nine month period ending September 30, 2005, EVGV reached stabilized occupancy, with average occupancy for the period of 96.6%. The improvement in occupancy has led to an operating income of \$83,761 for the nine month period ending September 30, 2005.

- Another reason for the significant variation in the pro forma debt service coverage ratio ties to the performance of the Corporation's three free standing skilled nursing facilities. The Corporation experienced \$967,676 and \$988,783 in combined operating losses at its three free standing skilled nursing facilities in 2003 and 2004, respectively. For the nine-month period ending September 30, 2004, the three skilled nursing facilities recorded a combined operating loss of \$730,912. As a result of a substantial rate increase from the Medi-Cal program, better negotiated rates from managed care payers and significant efforts from management to reduce costs and increase occupancy, the performance of the three skilled nursing facilities has improved significantly. For the nine month period ending September 30, 2005, the three skilled nursing facilities recorded a combined operating income of \$1,504,309.

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APPENDIX B

**Consolidated Financial Statements of
Eskaton and Subsidiaries**

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KPMG LLP
Suite 800
400 Capitol Mall
Sacramento, CA 95814

Independent Accountants' Consent

The Board of Directors
Eskaton and Subsidiaries:

We consent to the inclusion of our report dated April 15, 2005, except for note 11, which is dated April 21, 2005, and except for notes 2, and 24 which are dated December 8, 2005, in the Official Statement dated as of December 9, 2005 for the \$49,000,000 ABAG Finance Authority for Nonprofit Corporations Revenue Refunding Bonds, Series 2005 Auction Rate Securities.

KPMG LLP

Sacramento, California
December 8, 2005



ESKATON AND SUBSIDIARIES

Consolidated Financial Statements

December 31, 2004 and 2003

(With Independent Auditors' Report Thereon)

ESKATON AND SUBSIDIARIES

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KPMG LLP
Suite 800
400 Capitol Mall
Sacramento, CA 95814

Independent Auditors' Report

The Board of Directors
Eskaton:

We have audited the accompanying consolidated balance sheets of Eskaton and subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of operations, changes in net liabilities and cash flows for the years then ended. These consolidated financial statements are the responsibility of Eskaton's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the Company's internal control 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 Eskaton and subsidiaries as of December 31, 2004 and 2003 and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in note 2, the consolidated financial statements as of and for the years ended December 31, 2004 and 2003 have been restated.

KPMG LLP

April 15, 2005, except as to note 11,
which is as of April 21, 2005, and
except as to notes 2, and 24 which
are as of December 8, 2005

ESKATON AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2004 and 2003

(Dollars in thousands)

Assets	2004 (as restated)	2003 (as restated)
Current assets:		
Cash and cash equivalents	\$ 5,293	6,637
Assets limited as to use (notes 7 and 11)	1,762	824
Investments (notes 7 and 17)	6,769	6,241
Accounts receivable, less allowance for uncollectible accounts of \$227 in 2004 and \$283 in 2003 (note 19)	3,287	3,472
Other receivables, less allowance for uncollectible accounts of \$870 in 2004 and 2003	1,619	1,450
Current portion of notes receivable (note 10)	250	—
Inventories	208	150
Deposits and prepaid expenses	509	381
Deposits held in escrow	—	828
Total current assets	19,697	19,983
Assets limited as to use, net of amount required for current liabilities (notes 7 and 11)	8,614	8,612
Investments (notes 7 and 17)	11,489	10,600
Property and equipment, net (notes 9 and 11)	99,299	101,219
Other assets:		
Unrecognized pension prior service cost (notes 13 and 14)	1,237	1,629
Deferred financing costs, net	2,786	2,907
Interest rate swap agreements (note 8)	1,642	1,860
Deferred costs of acquiring initial CCRC membership contracts, net of accumulated amortization of \$1,595 in 2004 and \$1,571 in 2003	—	24
Investment in healthcare-related businesses	59	59
CCRC associate member trust	4,607	5,066
Other	455	533
Total other assets	10,786	12,078
Total assets	\$ 149,885	152,492

ESKATON AND SUBSIDIARIES

Consolidated Balance Sheets

December 31, 2004 and 2003

(Dollars in thousands)

	<u>2004</u>	<u>2003</u>
	<u>(as restated)</u>	<u>(as restated)</u>
Liabilities and Net Liabilities		
Current liabilities:		
Current maturities of long-term debt (note 11)	\$ 1,537	1,295
Current portion of deferred revenue from unamortized CCRC membership fees (note 15)	1,906	1,900
Deposits on unoccupied CCRC units	354	1,182
Accounts payable	1,292	1,673
Construction contracts payable	—	605
Estimated third-party payor settlements	1	27
Accrued liabilities:		
Payroll and payroll taxes	1,206	975
Vacation	913	917
Current portion of self-insured workers' compensation (note 17)	1,357	1,265
Interest	658	485
Tail	1,174	774
Other	376	374
	<u>10,774</u>	<u>11,472</u>
Other liabilities:		
Self-insured workers' compensation, net of current portion (note 17)	1,071	452
CCRC associate member trust	4,607	5,066
Interest rate swap agreements (note 8)	5,032	7,307
Unfunded pension obligation (notes 13 and 14)	1,999	3,554
Other	1,441	1,608
	<u>14,150</u>	<u>17,987</u>
Long-term debt, less current maturities (note 11)	106,814	108,375
Deferred revenue from unamortized CCRC membership fees, net of current portion (note 15)	28,212	29,585
	<u>159,950</u>	<u>167,419</u>
Net (liabilities) assets:		
Unrestricted net liabilities	(10,627)	(15,441)
Temporarily restricted net assets (note 12)	113	82
Permanently restricted net assets (note 12)	449	432
	<u>(10,065)</u>	<u>(14,927)</u>
Commitments and contingencies (notes 16 and 17)		
	<u>\$ 149,885</u>	<u>152,492</u>

See accompanying notes to consolidated financial statements.

ESKATON AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended December 31, 2004 and 2003
(Dollars in thousands)

	<u>2004</u> <u>(as restated)</u>	<u>2003</u> <u>(as restated)</u>
Unrestricted revenues, gains, and other support:		
Net patient service revenue (note 5)	\$ 26,886	25,632
Resident service revenue, including amortization of CCRC membership fees of \$2,106 in 2004 and \$2,013 in 2003	31,295	27,778
Investment income (note 7)	2,022	604
Other, net	6,923	4,306
Change in fair value of derivative activities (note 8)	2,085	(2,660)
Net assets released from restriction used for operations	2	9
Total revenues, gains, and other support	<u>69,213</u>	<u>55,669</u>
Expenses:		
Salaries and wages	29,987	26,596
Employee benefits	9,417	8,518
Supplies	3,337	3,853
Purchased services and other	7,617	5,039
Ancillary costs	1,592	2,006
Insurance/taxes	585	517
Utilities	2,447	2,453
Building and equipment rental	6	30
Depreciation and amortization	5,302	5,385
Interest	6,346	6,228
Provision for uncollectible accounts	76	96
Loss on disposal of property and equipment	31	—
Loss on abandonment of CCRC (note 22)	—	1,039
Total expenses (note 20)	<u>66,743</u>	<u>61,760</u>
Excess (deficiency) of revenues, gains, and other support over (under) expenses	2,470	(6,091)
Change in net unrealized gains on investment securities (note 7)	687	2,068
Change in accumulated benefit obligation (note 13)	1,657	297
Decrease (increase) in unrestricted net liabilities	4,814	(3,726)
Unrestricted net liabilities, beginning of year	<u>(15,441)</u>	<u>(11,715)</u>
Unrestricted net liabilities, end of year	<u>\$ (10,627)</u>	<u>(15,441)</u>

See accompanying notes to consolidated financial statements.

ESKATON AND SUBSIDIARIES

Consolidated Statements of Changes in Net Liabilities

Years ended December 31, 2004 and 2003

(Dollars in thousands)

	<u>2004</u> <u>(as restated)</u>	<u>2003</u> <u>(as restated)</u>
Unrestricted net liabilities:		
Excess (deficiency) of revenues, gains, and other support over (under) expenses	\$ 2,470	(6,091)
Change in net unrealized gains on investment securities	687	2,068
Change in accumulated benefit obligation	1,657	297
Decrease (increase) in unrestricted net liabilities	4,814	(3,726)
Unrestricted net liabilities, beginning of year	(15,441)	(11,715)
Unrestricted net liabilities, end of year	<u>\$ (10,627)</u>	<u>(15,441)</u>
Temporarily restricted net assets:		
Contributions	\$ 9	23
Investment income	6	3
Net realized and unrealized gains on permanently restricted net assets	28	49
Net assets released from restriction used for operations	(2)	(9)
Net assets released from restriction used for purchase of equipment	(10)	—
Increase in temporarily restricted net assets	31	66
Temporarily restricted net assets, beginning of year	82	16
Temporarily restricted net assets, end of year	<u>\$ 113</u>	<u>82</u>
Permanently restricted net assets:		
Contributions of endowments	\$ 13	56
Increase in assets held in trust by others	4	50
Increase in permanently restricted net assets	17	106
Permanently restricted net assets, beginning of year	432	326
Permanently restricted net assets, end of year	<u>\$ 449</u>	<u>432</u>
Decrease (increase) in net liabilities	\$ 4,862	(3,554)
Net liabilities, beginning of year	(14,927)	(11,373)
Net liabilities, end of year	<u>\$ (10,065)</u>	<u>(14,927)</u>

See accompanying notes to consolidated financial statements.

ESKATON AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2004 and 2003
(Dollars in thousands)

	<u>2004</u> <u>(as restated)</u>	<u>2003</u> <u>(as restated)</u>
Cash flows from operating activities:		
Change in net liabilities	\$ 4,862	(3,554)
Adjustments to reconcile changes in net liabilities to net cash provided by operating activities:		
Depreciation and amortization	5,302	5,385
Amortization of CCRC membership fees	(2,106)	(2,013)
Net realized and unrealized (gains) losses on assets limited as to use	(164)	12
Net realized and unrealized gains on investments	(1,847)	(2,077)
Change in fair value of derivative activities	(2,085)	2,660
Provision for uncollectible accounts	76	96
Loss on abandonment of CCRC	—	1,039
Loss from an equity joint venture	—	100
Restricted contributions	(20)	(70)
CCRC resale proceeds	7,226	6,430
Interest income accrued on note receivable	—	(11)
Loss on disposal of property and equipment	31	—
Change in accrued liability insurance for tail coverage	400	431
Change in receivables	(60)	(908)
Change in inventories	(58)	(5)
Change in deposits and prepaid expenses	(128)	55
Change in unrecognized pension prior service costs	392	(1,366)
Change in other assets	68	(122)
Change in accounts payable	(381)	(80)
Change in estimated third-party payor settlements	(26)	(12)
Change in accrued liabilities	1,113	467
Change in accrued pension liability	(1,555)	2,341
Change in other liabilities	(167)	(25)
Net cash provided by operating activities	<u>10,873</u>	<u>8,773</u>
Cash flows from investing activities:		
Purchases of assets limited as to use	(17,978)	(20,887)
Proceeds from sale of assets limited as to use	17,202	22,535
Purchases of investments	(12,474)	(4,983)
Proceeds from sales of investments	12,904	4,610
Proceeds from sale of property and equipment	—	99
Expenditures for capitalized maintenance	(1,523)	(1,338)
Expenditures for projects under development	(1,717)	(2,583)
Change in construction contracts payable	(605)	—
Additions to notes receivable	(250)	(60)
Principal payments received on notes receivable	—	1,444
Investment in risk retention group	—	(100)
Net cash used in investing activities	<u>(4,441)</u>	<u>(1,263)</u>

ESKATON AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended December 31, 2004 and 2003
(Dollars in thousands)

	<u>2004</u> <u>(as restated)</u>	<u>2003</u> <u>(as restated)</u>
Cash flows from financing activities:		
Disbursements on resold CCRC memberships	\$ (6,487)	(6,038)
Change in deposits on unoccupied units	(828)	(4,826)
Change in CCRC deposits held in escrow	828	4,899
Proceeds from restricted contributions	20	70
Proceeds from long-term debt borrowings	—	1,400
Principal payments on long-term debt	(1,305)	(2,074)
Loan fees related to Lincoln Land loan	(4)	(19)
Loan fees related to pre-development loan	—	(11)
	<u>(7,776)</u>	<u>(6,599)</u>
Net cash used in financing activities	(7,776)	(6,599)
Net (decrease) increase in cash and cash equivalents	(1,344)	911
Cash and cash equivalents, beginning of year	<u>6,637</u>	<u>5,726</u>
Cash and cash equivalents, end of year	<u>\$ 5,293</u>	<u>6,637</u>
Supplemental disclosures:		
Cash paid for interest (net of amount capitalized)	\$ 6,173	6,211
Noncash addition to construction in progress acquired through construction contracts payable	—	605
Noncash addition to property and equipment acquired through capital lease	—	113

See accompanying notes to consolidated financial statements.

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(1) Organization and Principles of Consolidation

The accompanying consolidated financial statements include the following:

Eskaton – Eskaton is a not-for-profit 501(c)(3) California corporation which was formed in 1967. Eskaton's primary mission is to enhance the quality of life of seniors through innovative health, housing and social services. Eskaton is the sole corporate member of Eskaton Properties, Inc. (EPI), Eskaton Gold River Lodge (EGRL), Eskaton Village – Grass Valley (EVG), Eskaton Village – Roseville (EVR), Eskaton Foundation and the sole stockholder of Western Hospital Equipment and Supply (WHES) and California Healthcare Consultants (CHC). Eskaton also operates community service programs.

EPI – EPI is a not-for-profit 501(c)(3) California corporation that operates skilled nursing and retirement housing facilities; home care services; adult day services; a continuing care retirement community and a business services group which provides financial and managerial support to all Eskaton operations. EPI also manages skilled nursing, assisted living and independent living facilities owned by third parties.

EGRL – EGRL is a not-for-profit 501(c)(3) California corporation that operates a 94 unit assisted living facility in Gold River, California.

EVG – EVG is a not-for-profit 501(c)(3) California Corporation that operates a 57 unit assisted living and 80 unit congregate living facility in Grass Valley, California.

EVR – EVR is a not-for-profit 501(c)(3) California corporation that is in the planning stages of developing a multi-service retirement community to be built in Roseville, California.

Eskaton Foundation – Eskaton Foundation is a not-for-profit 501(c)(3) California Corporation whose purpose is to raise funds for the benefit of Eskaton programs.

WHES – WHES is a taxable subsidiary and is inactive at December 31, 2004 and 2003.

CHC – CHC is a taxable subsidiary that leases employees to Eskaton Lodge Granite Bay, LP and holds an investment in Senior Residential Services, GP as a general partner.

All material intercompany accounts and transactions have been eliminated in consolidation.

(2) Restatement of Consolidated Financial Statements

During 2005, Eskaton determined that restatement of its December 31, 2004 and 2003 consolidated financial statements was necessary. The restatement relates to the following areas:

- (a) Eskaton had incorrectly classified construction costs related to a senior care project as Deferred costs on acquiring initial CCRC membership contracts. Eskaton has reclassified \$1,687,000 and \$1,617,000 as of December 31, 2004 and 2003, respectively, to Construction in Progress. The resulting reclassified amounts reflect only capitalizable construction costs as required by generally accepted accounting principles (GAAP).

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

- (b) GAAP requires that capitalized costs related to acquiring initial CCRC membership contracts be expensed in the period that Eskaton decides to abandon the CCRC project. In November 2003, Eskaton decided to abandon the CCRC project. Consequently, any costs related to acquiring the related CCRC membership contracts should have been expensed in 2003 (note 22). Eskaton has written off \$1,039,000 of deferred costs on acquiring initial CCRC membership contracts for the year ended December 31, 2003 to loss on abandonment.
- (c) Eskaton had previously presented the net proceeds on resold memberships (CCRC resale proceeds with disbursements on resold CCRC memberships) as a financing activity on the consolidated statement of cash flows. Eskaton has reclassified the CCRC resale proceeds totaling \$7,226,000 and \$6,430,000 for the years ended December 31, 2004 and 2003, respectively, to the operating section of the consolidated statement of cash flows as required by generally accepted accounting principles. These reclassifications have no impact on total net cash provided or used in any period.
- (d) Eskaton had incorrectly recorded a portion of their share of the 2003 net loss of \$59,000 on its investment in Granite Bay during the year ended 2004.
- (e) Eskaton did not accurately reflect restricted contributions for operations as an operating activity in the consolidated statement of cash flows. Eskaton has revised the consolidated statements of cash flows to reflect only restricted contributions for capital acquisitions of \$20,000 and \$70,000 for the years ended December 31, 2004 and 2003, respectively, in the operating and financing activities of the consolidated statements of cash flows. These changes did not have an impact on total net cash provided or used in any period.
- (f) Eskaton previously accounted for its interest rate swaps for variable-rate debt as a cash flow hedge. Eskaton determined these interest rate swaps did not qualify for such accounting treatment under the provisions of Statement of Financial Accounting Standards No. 133 (SFAS 133). Accordingly, the change in fair value on these interest rate swaps have been reclassified to "change in fair value of derivative activities" on the consolidated statements of operations as a component of total revenues, gains, and other support. Previously these amounts were reported as a component of the change in unrestricted net liabilities. As a result, the change in fair value associated with this interest rate swap of \$2,275,000 and \$(2,767,000) have been included in the excess (deficiency) of revenues, gains, and other support over (under) expenses for the years ended December 31, 2004 and 2003.

In addition, Eskaton did not accurately record the change in fair value, including amortization, related to their fair value hedge for the year ended December 31, 2003. This resulted in a change in previously reported amounts for 2004 and 2003. In addition, the change in fair value of the fixed-rate debt interest rate swap (fair value hedge) of \$(190,000) and \$8,000 (as restated) for the years ended December 31, 2004 and 2003, respectively were also reclassified to "change in fair value of derivative activities" as a component of total revenues, gains and other support within the consolidated statements of operations in order to conform with SFAS 133. Pursuant to SFAS 133, though the derivative qualifies for hedge accounting classification, this item should be included in the excess (deficiency) of revenues, gains, and other support over (under) expenses.

In addition, the disclosure matters related to these restated items have also been restated in the notes.

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The following tables set forth the effects of the restatement adjustments on Eskaton's consolidated balance sheets as of December 31, 2004 and 2003, and Eskaton's consolidated statement of operations and changes in net liabilities and cash flows for the years then ended:

	2004	
	As previously reported	As restated
Consolidated balance sheet:		
Property and equipment, net	\$ 97,612	99,299
Deferred costs of acquiring initial CCRC membership contracts	2,726	—
Total assets	150,924	149,885
Long-term debt, less current maturities	106,913	106,814
Total liabilities	160,049	159,950
Unrestricted net liabilities	(9,687)	(10,627)
Total net liabilities	(9,125)	(10,065)
Total liabilities and net liabilities	150,924	149,885
Consolidated statement of operations:		
Other, net	6,864	6,923
Change in fair value of derivative activities	—	2,085
Total revenues, gains and other support	67,069	69,213
Excess (deficiency) of revenues, gains and other support over (under) expenses	326	2,470
Change in fair value of hedging activities	2,085	—
Decrease (increase) in unrestricted net liabilities	4,755	4,814
Unrestricted net liabilities, beginning of year	(14,442)	(15,441)
Unrestricted net liabilities, end of year	(9,687)	(10,627)
Consolidated statement of net liabilities:		
Excess (deficiency) of revenues, gains and other support over (under) expenses	326	2,470
Change in fair value of hedging activities	2,085	—
Decrease (increase) in unrestricted net liabilities	4,755	4,814
Unrestricted net liabilities, beginning of year	(14,442)	(15,441)
Unrestricted net liabilities, end of year	(9,687)	(10,627)
Decrease (increase) in net liabilities	4,803	4,862
Net liabilities, beginning of year	(13,928)	(14,927)
Net liabilities, end of year	(9,125)	(10,065)
Consolidated statement of cash flows:		
Net cash provided by operating activities	3,645	10,873
Net cash used in financing activities	(548)	(7,776)

ESKATON AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2004 and 2003

	2003	
	<u>As previously reported</u>	<u>As restated</u>
Consolidated balance sheet:		
Property and equipment, net	\$ 99,602	101,219
Deferred costs of acquiring initial CCRC membership contracts	2,680	24
Investment in healthcare related business	118	59
Total assets	153,590	152,492
Long-term debt, less current maturities	108,474	108,375
Total liabilities	167,518	167,419
Unrestricted net liabilities	(14,442)	(15,441)
Total net liabilities	(13,928)	(14,927)
Total liabilities and net liabilities	153,590	152,492
Consolidated statement of operations:		
Other, net	4,365	4,306
Change in fair value of derivative activities	—	(2,660)
Total revenues, gains and other support	58,388	55,669
Loss on abandonment of CCRC	—	1,039
Total expenses	60,721	61,760
Excess (deficiency) of revenues, gains and other support over (under) expenses	(2,333)	(6,091)
Change in fair value of hedging activities	(2,759)	—
Decrease (increase) in unrestricted net liabilities	(2,727)	(3,726)
Unrestricted net liabilities, end of year	(14,442)	(15,441)
Consolidated statement of net liabilities:		
Excess (deficiency) of revenues, gains and other support over (under) expenses	(2,333)	(6,091)
Change in fair value of hedging activities	(2,759)	—
Decrease (increase) in unrestricted net liabilities	(2,727)	(3,726)
Unrestricted net liabilities, end of year	(14,442)	(15,441)
Decrease (increase) in net liabilities	(2,555)	(3,554)
Net liabilities, end of year	(13,928)	(14,927)
Consolidated statement of cash flows:		
Net cash provided by operating activities	2,334	8,773
Net cash used in financing activities	(160)	(6,599)

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(3) Summary of Significant Accounting Policies

(a) *Cash and Cash Equivalents*

Cash and cash equivalents include cash in bank and short-term money market accounts with maturities of three months or less when purchased.

(b) *Net Patient Service Revenue*

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

(c) *Continuing Care Retirement Community (CCRC) Fees*

Eskaton owns and operates a CCRC known as Eskaton Village – Carmichael (EVC) located on 37 acres in Carmichael, California. EVC membership fees, which were only paid by the initial resident of each housing unit upon entering into a resaleable continuing care contract, were recorded as deferred revenue. Such deferred revenue is amortized to income using the straight-line method over the estimated remaining life of the facility. Eskaton's share of appreciation in excess of the original membership fee amount earned upon the resale of a membership from one resident to another qualified individual is recorded as deferred revenue and is amortized to income using the straight-line method over the estimated remaining life of the facility. Transfer fees earned upon the resale of a membership are recorded as revenue in the period earned.

Residential units are charged a monthly accommodation fee. Additional fees are charged for services rendered in the assisted living and skilled nursing facilities, of which a major portion may be defrayed by coverage under a long-term care group insurance policy (note 15).

(d) *Inventories*

Inventories are stated at the lower of cost (first-in, first-out method) or market.

(e) *Investments*

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with unrealized gains and losses excluded from the excess (deficiency) of revenues, gains and other support over (under) expenses.

(f) *Assets Limited As to Use*

Assets limited as to use include assets held by trustees under regulatory and bond indenture agreements, and endowment funds under Eskaton Foundation.

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(g) *Property and Equipment*

Property and equipment are stated at cost. Interest capitalized (net of investment income from bond proceeds) in connection with the construction of plant and equipment is recorded as part of the cost of the constructed asset to which it relates and is amortized over the asset's useful life. Depreciation and amortization are computed using the straight-line method based on estimated useful lives of property and equipment as follows:

Land improvements	10 to 20 years
Buildings and improvements	25 to 40 years
Equipment	5 to 20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support, and are excluded from the deficiency of revenues under expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported, as net assets released from restriction when the donated or acquired long-lived assets are placed in service.

(h) *Notes Receivable*

Notes receivable are recorded at cost, less allowances for impaired notes receivable. Management, considering current information and events regarding the borrowers' ability to repay their obligations, considers a note to be impaired when it is probable that Eskaton will be unable to collect all amounts due according to the contractual terms of the note agreement. When a loan is considered to be impaired, the amount of impairment is measured based on the present value of expected future cash flows discounted at the note's effective interest rate or on the fair market value of the collateral if the loan is collateral dependent. Impairment losses are included in the allowance for doubtful notes through a charge to bad debt expense. Cash receipts on impaired notes receivable are applied to reduce the principal amount of such notes until the principal has been recovered and are recognized as interest income, thereafter.

(i) *Derivative Instruments and Hedging Activities*

Eskaton entered into swap agreements to manage interest rate risk on its 1999 series certificates and 2000 series bonds. Swaps are contracts to exchange, for a period of time, the investment performance of one underlying instrument for the investment performance of another instrument without exchanging the instruments themselves. Eskaton entered into these agreements to mitigate cash flow and fair value risks related to changes in interest rates.

Eskaton assesses interest rate risks by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and fair values. Eskaton maintains risk management control systems to monitor interest rate risk attributable to Eskaton's hedging activities. The monitoring involves the use of analytical techniques, including sensitivity analysis, to estimate the expected impact of changes in interest rates on Eskaton's future cash flows.

ESKATON AND SUBSIDIARIES
Notes to Consolidated Financial Statements
December 31, 2004 and 2003

(j) *Temporarily Restricted Net Assets*

Temporarily restricted net assets are those whose use by Eskaton has been limited by donors for a specific time period or purpose.

(k) *Permanently Restricted Net Assets*

Permanently restricted net assets are those whose use by Eskaton has been restricted by donors to be maintained by the Eskaton Foundation in perpetuity.

(l) *Excess (Deficiency) of Revenues, Gains, and Other Support Over (Under) Expenses*

The consolidated statements of operations and changes in net liabilities include excess (deficiency) of revenues, gains and other support over (under) expenses. Changes in unrestricted net assets which are excluded from excess (deficiency) of revenues, gains and other support over (under) expenses, include changes in unrealized gains and losses on investments, changes in fair values of hedging activities, changes in accumulated benefit obligation, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

(m) *Deferred Financing Costs*

Deferred financing costs are amortized over the period the obligation is outstanding using the straight-line method which is not materially different than using the effective interest method.

(n) *Deferred Costs of Acquiring Initial CCRC Membership Contracts*

Costs of acquiring initial continuing care contracts are amortized on a straight-line basis over the average expected remaining lives of the residents under contract.

(o) *Income Taxes*

Eskaton, EPI, EGRL, EVGV, EVR, and Eskaton Foundation are exempt from income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3) and applicable state regulations, except for federal and state tax on income resulting from unrelated business income. WHES and CHC are taxable entities. However, income taxes are not significant to the consolidated financial statements.

(p) *Self-Insured Workers' Compensation*

The provision for estimated self-insured workers' compensation includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

(q) *Obligation to Provide Future Services*

Management annually calculates the present value of the net cost (difference between cost to operate and maintenance fees charged) of future services and use of the CCRC facility to be provided to current residents and compares the amount with the balance of deferred revenue from unamortized CCRC membership fees. If the present value of the net cost of future services and use of CCRC

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

facilities exceeds the deferred revenue from unamortized CCRC membership fees, a liability is recorded with the corresponding charge to income (note 15).

(r) *Donated Services and Materials*

A number of volunteers donate significant amounts of time to advance Eskaton's program objectives. No amounts are reported in the accompanying financial statements for donated services since no objective basis is available to measure the value of such services.

Eskaton records the donation of materials and services when an objective basis is available to measure the value of those donations, and when the materials or services would be purchased if they were not donated. These amounts are recorded as revenues from contributions and as expenses.

(s) *Social Responsibility*

Eskaton provides certain community service programs under its social responsibility policy which, in aggregate, are reimbursed at less than the cost of services provided to the recipients. The difference between the cost of services provided and expected reimbursement is considered to be social responsibility (note 4).

(t) *Impairment of Long-Lived Assets and Long-Lived Assets to Be Disposed Of*

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceed the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. As of December 31, 2004 and 2003, there was no impairment in long-lived assets.

(u) *Use of Management's Estimates*

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

(4) *Social Responsibility*

Eskaton provides the following community service programs under its social responsibility policy:

The Senior Connection

The Senior Connection provides seniors and their family members with information about community resources, assistance in selecting the appropriate level and source of care, and educational courses; placement referrals; legal and financial consultation services; case management and other services. The Senior Connection operates the Talking, Listening and Caring (TLC) telephone reassurance/home visitor

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program. These services are provided primarily by volunteers and include daily telephone calls or weekly home visits for isolated elderly.

Adult Day Health Care Center (ADHC)

Eskaton owns and operates an ADHC program that provides social, recreational and rehabilitation services to residents of a portion of Sacramento County.

The difference between the cost of providing the above services and reimbursement is considered to be social responsibility. The level of social responsibility provided for the years ended December 31, is measured as follows (dollar amounts in thousands):

	2004	2003
Cost in excess of reimbursement:		
The Senior Connection	\$ 345	325
Operating statistics (unaudited):		
The Senior Connection:	-	
Information calls	5,449	5,265
Senior Connection class attendees	442	282
Caregiver class attendees	43	80
Professional appointments	77	47
TLC telephone calls	79,440	69,733
TLC home visits	323	186
TLC senior companion visits	1,014	705
Community education and support attendees	5,902	4,536
ADHC client days	11,257	10,965

(5) **Third-Party Payors**

Eskaton has agreements with third-party payors that provide for payments to Eskaton at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- Medicare – Skilled nursing services provided to Medicare program beneficiaries are reimbursed under the Prospective Payment System. Eskaton is reimbursed under this system on a per diem rate depending on each patient category which is determined by the Resource Utilization Groups (RUG) system. Home health visits rendered to Medicare Program beneficiaries are reimbursed under the Prospective Payment System. Eskaton is reimbursed under this system on a per diem rate depending on each patient category which is determined by the Home Health Resource Groups (HHRG) system.
- Medi-Cal – Skilled nursing services and home health visits rendered to Medi-Cal program beneficiaries are reimbursed under prospectively determined rates.
- Other – Eskaton has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to Eskaton under these agreements includes prospectively determined daily rates and discounts from established charges.

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(6) Public Support

Public support represents contributions received from corporations and individuals, from the sale of tickets to fundraising events such as an annual Garden Gala and an annual golf tournament, and through the auction of merchandise donated by local businesses. One-hundred percent of the net proceeds from the Garden Gala is distributed to Eskaton's Talking, Listening and Caring (TLC) program. Seventy percent of the net proceeds received from the golf tournament is distributed to the Eskaton program(s) specifically sponsored by the event, twenty-five percent is placed into the Eskaton Foundation Endowment Fund and five percent is designated for specific charitable purposes. Board designated net assets were \$225,000 and \$188,000 at December 31, 2004 and 2003, respectively.

Eskaton Village – Carmichael (EVC), a 37-acre continuing care retirement community which is owned by Eskaton, receives support consisting of voluntary contributions made by its residents. These contributions are allocated to the various EVC Assistance Fund accounts based on the donor's designation. The primary purpose of the EVC Assistance Fund is to help residents pay their monthly accommodation fees in the event they are unable to do so.

(7) Investments

Assets Limited As to Use

Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets. The composition of assets limited as to use as of December 31, is set forth in the following table (in thousands):

	2004	2003
Required under bond indenture agreements for construction, escrow, principal, interest, reserves, and insurance held by trustee:		
Cash and short-term investments	\$ 1,443	899
U.S. Treasury notes, government securities, and other corporate debt securities	8,933	8,537
	10,376	9,436
Less current portion	1,762	824
	\$ 8,614	8,612

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Other Investments

Other investments, stated at fair value, at December 31, include (in thousands):

	2004	2003
Board designated for general purpose:		
Cash and short-term investments	\$ 233	193
U.S. Treasury notes, government securities, and other corporate debt securities	2,418	2,297
Equity securities	4,492	4,346
Mutual funds	1,527	1,276
	8,670	8,112
Board designated for Eskaton Village:		
Carmichael capital replacement funds:		
Cash and short-term investments	108	42
Equity securities	3,227	2,775
Mutual funds	4,650	4,447
	7,985	7,264
Board designated for capital replacement:		
Cash and short-term investments	47	140
U.S. Treasury notes, government securities, and other corporate debt securities	251	154
Equity securities	379	338
Mutual funds	227	189
	904	821
Foundation endowment fund:		
Cash and short-term investments	205	196
Eskaton Village – Carmichael Assistance Fund endowment funds:		
Cash and short-term investments	14	14
Mutual funds	480	434
	494	448
	18,258	16,841
Less current portion	6,769	6,241
	\$ 11,489	10,600

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Investment income, expenses and gains (losses) for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ending December 31:

	2004	2003
Income:		
Interest income	\$ 790	815
Realized gains (losses) on sales of securities	1,289	(106)
	2,079	709
Less investment expenses	57	105
	\$ 2,022	604
Other changes in unrestricted net assets:		
Unrealized gains on securities	\$ 687	2,068
Other changes in temporarily and permanently restricted net assets:		
Investment income	\$ 6	3
Unrealized gains on temporarily restricted net assets	\$ 28	49
Increase in assets held in trust by others	\$ 4	50

Eskaton evaluates investments whenever events or changes in circumstances indicate that the carrying value of an investment may not be recoverable. Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2004, were as follows:

Description	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized Loss	Fair value	Unrealized loss	Fair value	Unrealized loss
Equity securities	\$ 10	(3)	2,087	(492)	2,097	(495)

Several equity securities purchased as part of a long-term investment strategy have unrealized losses due to fluctuations in market values. All are well-established companies with a favorable long-term outlook. Based on our intent and ability to hold the shares until a market price recovery, these investments are not considered other-than-temporarily impaired.

(8) Derivative Instruments and Hedging Activities

Eskaton has interest-rate related hedging instruments to manage its exposure on its debt instruments. The type of hedging instrument utilized by Eskaton are interest rate swap agreements (swaps). Interest differentials to be paid or received because of swap agreements are reflected as an adjustment to interest expense or capitalized interest expense over the related debt period. By using hedging financial instruments to hedge exposures to changes in interest rates, Eskaton exposes itself to credit risk and market risk.

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Credit risk is the failure of the counterparty to perform under the terms of the contract. When the fair value of a contract is positive, the counterparty owes Eskaton, which creates credit risk for Eskaton. When the fair value of a contract is negative, Eskaton owes the counterparty and, therefore, it does not possess credit risk. Eskaton minimizes the credit risk in hedging instruments by entering into transactions with high-quality counterparties whose credit rating is higher than Aa.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates. The market risk associated with interest-rate contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Interest Rate Swap Agreements For Variable-Rate Debt

Eskaton issued variable-rate debt to refinance various debt issuances and finance capital improvements (note 11). The variable-rate debt obligations expose Eskaton to variability in interest payments due to changes in interest rates. Management believes it is prudent to limit the variability of a portion of its interest payments. To meet this objective, management enters into swap agreements to manage fluctuations in cash flows resulting from interest rate risk. These swaps change the variable-rate cash flow exposure on the debt obligations to fixed-cash flows. Under the terms of the interest rate swaps, Eskaton makes fixed interest rate payments and receives variable interest rate payments, thereby creating the equivalent of fixed-rate debt. As of December 31, 2004 and 2003, Eskaton was party to interest-rate swap agreements with an aggregate notional principal amount of \$62.25 million and \$62.98 million, respectively, related to the Series 1999 SAVRS certificates.

Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability of cash flows associated with variable-rate, long-term debt obligations are recognized as a change in unrestricted net assets. Historically, Eskaton applied hedge accounting under SFAS 133 to account for these interest rate swaps. As discussed in note 2, these interest rate swaps do not qualify for hedge accounting treatment under SFAS 133 and the change in fair value of these interest rate swaps of \$2,275,000 and \$(2,767,000) are recognized in total revenues, gains, and other support in the consolidated statements of operations for the years ended December 31, 2004 and 2003, respectively.

Interest Rate Swap Agreements for Fixed-Rate Debt

Eskaton issued fixed-rate debt to finance capital improvements at Eskaton Village – Grass Valley (note 11). The fixed-rate debt obligations expose Eskaton to changes in the fair value of the debt when the benchmark interest rate changes. To mitigate this risk, management enters into a swap agreement, which effectively converts the fixed-rate liability into a variable-rate liability. Under the terms of the swaps, Eskaton makes variable interest rate payments and receives fixed interest rate payments, thereby creating the equivalent of variable-rate debt. As of December 31, 2004 and 2003, Eskaton was party to an interest-rate swap agreement with a notional principal amount of \$19.52 million and \$19.75 million, respectively, related to the Series 2000 bonds.

Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability of fair value associated with fixed-rate, long-term debt obligations are recognized as a change in total revenues, gains, and other support, together with the change in the fair value of the hedged item that is attributable to the risk being hedged.

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Changes in Fair Values of Derivative Activities

Changes in fair values of derivative activities recognized as a change in total revenues, gains, and other support for the year ended December 31, consist of the following (in thousands):

	<u>2004</u>	<u>2003</u> (as restated)
Fair value hedge:		
Unrealized loss on interest-rate swap agreements for fixed-rate debt	\$ (218)	(200)
Unrealized gain on fixed-rate bond obligation	28	307
Other derivative activities:		
Unrealized gain (loss) on interest rate swap agreements for variable-rate debt	2,275	(2,767)
	<u>\$ 2,085</u>	<u>(2,660)</u>

(9) Property and Equipment

Property and equipment at December 31, consist of the following (in thousands):

	<u>2004</u> (as restated)	<u>2003</u> (as restated)
Land	\$ 8,565	8,565
Land held for expansion	4,287	4,287
Land improvements	11,755	11,676
Buildings and improvements	105,259	104,535
Equipment	12,724	12,007
	<u>142,590</u>	<u>141,070</u>
Less accumulated depreciation and amortization	56,870	51,735
	85,720	89,335
Construction in progress	13,579	11,884
Property and equipment, net	<u>\$ 99,299</u>	<u>101,219</u>

During the years ended December 31, 2004 and 2003, financing costs and interest of \$486,913 and \$500,843, respectively, were capitalized.

(10) Notes Receivable

A summary of notes receivable, follows (in thousands):

	<u>2004</u>	<u>2003</u>
4% unsecured note receivable from Eskaton Lodge Granite Bay, L.P., interest due monthly and principal due July 2005	\$ 250	—

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Impaired loans are loans for which, based on current information and events, it is probable that Eskaton will be unable to collect all amounts due according to the contractual terms of the loan agreement. This includes both the contractual interest payments and the contractual principal payments. Eskaton had no impaired loans as of December 31, 2004 and 2003.

(11) Long-Term Debt

Long-term debt at December 31, consists of the following (in thousands):

	<u>2004</u> <u>(as restated)</u>	<u>2003</u> <u>(as restated)</u>
Obligated group:		
3.75% to 5.75% Tax Exempt Convertible Certificates of Participation Select Auction Variable Rate Securities (the Series 1999 Certificates) due 2029, principal due in annual installments and interest due every 35 days; secured by deeds of trust.	\$ 11,450	11,700
3.75% to 5.64% Tax Exempt Convertible Certificates of Participation Select Auction Variable Rate Securities (the Series 1999 Certificates) due 2029, principal due in annual installments and interest due every 35 days; secured by deeds of trust.	15,100	15,450
3.75% to 7.19% Taxable Convertible Certificates of Participation (the Series 1999 Certificates) due 2029; principal due in annual installments commencing in 2004 and interest due every 35 days; secured by deeds of trust.	38,500	38,700
6.375% Revenue Certificates of Participation (the Series 1998 Certificates) due 2028; less unamortized discount of \$135 and \$140 at December 31, 2004 and 2003, respectively; principal due in annual installments beginning 2002; interest due in semiannual installments; secured by a deed of trust on Eskaton Gold River Lodge.	12,020	12,210
Variable rate pre-development loan payable to Western Sierra Bank all due 2008; the interest rate is the prime rate plus 2.0% (minimum 6.5%) and was 7.25% and 6.5% on December 31, 2004 and 2003, respectively; secured by a deed of trust on the Lincoln property.	1,400	1,400
7% note payable to Feather River State Bank, balance all due 2008, interest due monthly; secured by a deed of trust on the Eskaton Administrative Center.	2,590	2,590
Other notes, due through 2012	357	404

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	<u>2004</u> <u>(as restated)</u>	<u>2003</u> <u>(as restated)</u>
Non-obligated group:		
8.25% Revenue Bonds (the Series 2000 bonds) due 2031; less unamortized discount of \$255 and \$265 at December 31, 2004 and 2003, respectively; principal due in annual installments beginning 2004; interest due in semiannual installments; secured by a deed of trust on Eskaton Village – Grass Valley and by a pledge of gross revenues and other security under the Master Trust Indenture for the Series 1999 Certificates of Participation Select Auction Variable Rate Securities (SAVRS); (cost basis \$19,486).	\$ 20,821	21,064
Variable rate pre-development loan payable to Western Sierra Bank all due 2006; the interest rate is the prime rate plus 1.50% and was 7.75% on December 31, 2004 and 2003, respectively; secured by a deed of trust on the Eskaton Village – Roseville property.	6,000	6,000
Other notes, due through 2007	<u>113</u>	<u>152</u>
	108,351	109,670
Less current maturities	<u>1,537</u>	<u>1,295</u>
	<u>\$ 106,814</u>	<u>108,375</u>

On April 21, 2005, Eskaton executed an extension on the variable rate predevelopment loan payable with Western Sierra Bank of \$6,000,000 which extended the term until January 15, 2006. This extension has been reflected in the consolidated balance sheets as the debt was reclassified from current maturities to long-term debt, less current maturities.

As of December 31, 2004 and 2003, Eskaton was comprised of the entities described in note 1. Pursuant to a Master Indenture and related agreements, the Eskaton Properties Incorporated Obligated Group (Obligated Group), is comprised of EPI and EGRL (note 24).

Scheduled maturities (exclusive of fair market value adjustment of \$1,335,000) of long-term debt are as follows (in thousands):

Year ending December 31:	
2005	\$ 1,537
2006	8,024
2007	2,091
2008	5,820
2009	2,269
Thereafter	<u>87,275</u>
	<u>\$ 107,016</u>

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Under the terms of the Series 2000 bonds, the Series 1999 certificates and the Series 1998 certificates, Eskaton is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The Master Indenture (Series 1999 Certificates) places limits on the incurrence of additional borrowings and requires that Eskaton satisfy certain measures of financial performance as long as the certificates are outstanding. The Series 1999 certificates are insured by the ACA Financial Guaranty Corporation.

Some of the credit facilities listed above contain restrictive covenants which require, among other things, that Eskaton maintain specified debt coverage ratios and days cash on hand ratios. The covenants include certain requirements regarding the management of revenues. Eskaton was not in compliance with a restrictive covenant of the Eskaton Gold River Lodge debt as of December 31, 2004 and 2003, and has received a waiver from the trustee through January 1, 2006 for the item of noncompliance.

(12) Temporarily and Permanently Restricted Net Assets

All temporarily restricted contributions are initially recorded in temporarily restricted net assets and are transferred to unrestricted net assets once the donor's restriction has been met. Temporarily restricted contributions are used for donor designated operating expenses or capital acquisitions. The income earned on the Eskaton Village – Carmichael (EVC) Assistance Fund Endowment Fund's permanently restricted net assets is transferred to temporarily restricted net assets to be used to satisfy the EVC Assistance Fund's purpose.

Temporarily restricted net assets consist of the following at December 31:

	2004	2003
Donor designated for operating expenses or capital acquisitions	\$ 27	30
EVC Assistance Fund operating cash	2	2
EVC Assistance Fund Endowment Fund, UBS Investment Account investment earnings	60	54
EVC Assistance Fund Endowment Fund, UBS Investment Account unrealized gains (losses)	24	(4)
	\$ 113	82

Permanently restricted net assets are for the EVC Assistance Fund, a standing committee of Eskaton Foundation. The EVC Assistance Fund consists of an Endowment Fund invested in an Investment Account at UBS and Pooled Income Fund invested in a Trust Management Account at Merrill Lynch Trust Company of America. The EVC Assistance Fund Endowment Fund is restricted to accounts to be held in perpetuity, the income from which is expendable to pay EVC residents' monthly accommodation fees in the event they are unable to do so themselves. The EVC Assistance Fund Pooled Income Fund allows the donor to contribute a gift of an irrevocable remainder interest in the property of the Fund with the retention of a Life Income Interest. Each donor transferring property to the fund shall retain an income interest in the property for the donor or one or more named beneficiaries. Merrill Lynch pays the income earned by the Fund to the designated beneficiaries quarterly. Upon the death of the donor, the remainder interest becomes the property of the EVC Assistance Fund. Merrill Lynch liquidates the interest in the Fund and makes a

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check payable to the EVC Assistance Fund and it is then invested in the Endowment Fund's UBS Investment Account.

Permanently restricted net assets consist of the following at December 31:

	<u>2004</u>	<u>2003</u>
EVC Assistance Fund Endowment Fund, UBS Investment Account	\$ 257	244
EVC Assistance Fund Pooled Income Fund, Merrill Lynch Trust Account	185	181
Foundation Endowment Fund, UBS	<u>7</u>	<u>7</u>
	<u>\$ 449</u>	<u>432</u>

(13) Pension Plan

Eskaton has a defined benefit cash balance pension plan whereby a participant's monthly rate of retirement benefits shall equal one twelfth of the amount determined in accordance with the Plan provisions. A participant may elect an optional form of benefit, including a single lump-sum payment. The Eskaton Retirement Plan covers all employees of Eskaton, President James Monroe Manor, President John Adams Manor, President George Washington Manor, and President Thomas Jefferson Manor, who have attained the age of 21 after completion of one year of service in which the employee completes 1,000 hours of service. The Plan requires five benefit years to vest. Plan participants of discontinued operations accrue no additional benefits under the terms of the plan. Contributions were made of \$786,000 for the year ended December 31, 2004. No contributions were made for the year ended December 31, 2003. The plan is not fully funded at December 31, 2004. Eskaton will not be required to contribute to the Plan in 2005. The accumulated benefit obligation for the Plan for the years ended December 31, 2004 and 2003 was \$15,023,000 and \$13,275,000, respectively.

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	Eskaton Retirement Plan	
	<u>2004</u>	<u>2003</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 15,833	12,509
Service cost	490	446
Interest cost	956	906
Actuarial gain	113	2,877
Benefits paid	(2,211)	(905)
Benefit obligation at end of year	<u>\$ 15,181</u>	<u>15,833</u>
Change in plan assets:		
Fair value of plan assets at beginning of year	\$ 12,249	11,115
Actual return on plan assets	2,407	2,039
Employer contributions	786	—
Benefits paid	(2,211)	(905)
Fair value of plan assets at end of year	<u>\$ 13,231</u>	<u>12,249</u>
Funded status	\$ (1,950)	(3,584)
Unrecognized net actuarial loss	2,062	3,746
Unrecognized prior service cost	1,005	1,370
Net amount recognized	<u>\$ 1,117</u>	<u>1,532</u>
Amounts recognized in the balance sheet consist of:		
Unrecognized pension prior service cost	\$ 1,005	1,370
Unfunded pension obligation	(1,693)	(3,288)
Change in accumulated benefit obligation (unrestricted net assets)	(1,657)	(297)
Net amount recognized	<u>\$ (2,345)</u>	<u>(2,215)</u>
Weighted average assumptions as of December 31:		
Discount rate	6.50%	6.75%
Expected return on plan assets	8.50%	8.50%
Rate of compensation increase	3.50%	4.00%
Components of net periodic benefit cost:		
Service cost	\$ 490	446
Interest cost	956	906
Expected return on plan assets	(951)	(894)
Amortization of prior service cost	365	364
Recognized net actuarial loss	340	442
Net periodic benefit	<u>\$ 1,200</u>	<u>1,264</u>

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Measurement Date

The measurement date used to determine pension benefit measures for the Plan is September 30.

Cash Flows

The benefits expected to be paid over the next ten years are as follows:

Year ending:		
2005	\$	2,994
2006		1,076
2007		847
2008		1,029
2009		1,044
2010 - 2014		4,240

The expected benefits are based on the same assumptions used to measure Eskaton's benefit obligation at December 31 and include estimated future employee service.

Plan Assets

The weighted average asset allocation of the Plan assets at December 31, were as follows:

Asset category	Plan assets at December 31	
	2004	2003
Equity securities	75%	70%
Debt securities	23	28
Other	2	2
Total	100%	100%

Eskaton's investment policy for the Eskaton Retirement Plan states the overall investment objectives of the account. It also contains a target asset mix and asset mix restrictions, which in combination with the skills of each investment manager, should achieve these objectives.

Each investment manager's primary objective is to:

- Implement these policies so as to achieve the account's objectives.
- Notify the Committee should circumstances occur in which the investment manager believes the policy needs to be modified to achieve the objectives.
- Outperform the target asset mix, which is defined below.

The objectives of the account should be pursued as a long-term goal designed to maximize the returns without exposure to undue risk, as defined herein. Knowing that the Committee understands that fluctuating rates of return are characteristic of the securities markets, each investment manager's greatest concern should be long-term appreciation of the assets and consistency of total portfolio returns.

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Recognizing that short-term market fluctuations may cause variations in the account performance, the Committee expects the account to achieve the following objectives over a three-year moving time period:

- The account's total return will exceed the increase in the Consumer Price Index by 3% annually.
- The total return will exceed 8.5% annually, net of fees.

**Target Asset Mix Table
Overall Portfolio**

<u>Asset class</u>	<u>Minimum percent</u>	<u>Target percent</u>	<u>Maximum percent</u>
Domestic Equities	40.0%	55.0%	70.0%
Three Managers as follows:			
Large Capitalization Growth	17.5%	22.5%	27.5%
Large Capitalization Value	17.5%	22.5%	27.5%
Small Capitalization	5.0%	10.0%	15.0%
International Equities	15.0%	20.0%	25.0%
Domestic Fixed Income	15.0%	25.0%	40.0%

(14) Supplemental Executive Retirement Plan

Eskaton maintains a Supplemental Executive Retirement Plan (SERP) that provides supplemental funds for retirement or death for selected key employees of Eskaton in the event that the Retirement Plan benefits of such individuals are less than the specified target. The expense of this benefit is recorded according to the provisions of FAS 87 and FAS 132. The SERP is a nonqualified plan intended to meet the requirements of an ineligible deferred compensation plan as described in Section 457(f) of the Internal Revenue Code of 1986. The benefit under the SERP is offset by certain portions of the qualified Retirement Plan. It is expected over time that the benefits payable from the SERP will be nearly completely offset by the qualified Retirement Plan.

	<u>Eskaton SERP</u>	
	<u>2004</u>	<u>2003</u>
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 266	—
Service cost	22	2
Interest cost	18	2
Amendments	—	274
Actuarial gain	—	(12)
Benefit obligation at end of year	\$ 306	266

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	Eskaton SERP	
	2004	2003
Funded status	\$ (306)	(266)
Unrecognized net actuarial loss	(12)	(12)
Unrecognized prior service cost	232	271
Net amount recognized	\$ (86)	(7)
Amounts recognized in the balance sheet consist of:		
Unrecognized pension prior service cost	\$ 232	271
Unrecognized net actuarial loss	(12)	(12)
Unfunded pension obligation	(306)	(266)
Net amount recognized	\$ (86)	(7)
Weighted average assumptions as of December 31:		
Discount rate	6.50%	6.75%
Rate of compensation increase	3.50%	4.00%
Components of net periodic benefit cost:		
Service cost	\$ 22	2
Interest cost	18	2
Amortization of prior service cost	39	3
Net periodic benefit	\$ 79	7

(15) Eskaton Village – Carmichael (EVC)

EVC is a multi-level facility offering independent living, assisted living for those residents needing assistance with two or more of the functions of daily living and residents with cognitive impairments and skilled nursing for all other residents. EVC is located on a 37-acre parcel of land in Carmichael, California and consists of the following living units:

Unit type	Number of units
Apartments	201
Cottages	94
Assisted living	38
Assisted living – special care unit	20
Skilled nursing	35

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Residents of the apartments and cottages pay a membership fee and sign a membership agreement which has been approved by the Continuing Care Contracts Branch of the California Department of Social Services. During the first ninety days of occupancy, residents may cancel their membership agreement and receive a refund of the membership fee. After the ninety day period, the membership fee is refundable only from reoccupancy proceeds. Residents may resell their membership to another qualified individual and Eskaton receives a transfer fee of 10% of the sales price up to the original membership fee amount. In addition, appreciation in excess of the original membership fee amount is shared equally between the resident and Eskaton.

Historically, Eskaton has classified the deferred revenue from unamortized CCRC membership fees on its consolidated balance sheet as non-current liabilities. Eskaton believes that classifying the deferred revenue as non-current is consistent with prevailing and long-standing industry practice.

In July 2005, the American Institute of Certified Public Accountants asked the Financial Accounting Standards Board (FASB) to consider issuing further accounting guidance to clarify the appropriate classification of the liabilities related to these arrangements. As of December 8, 2005, the FASB has not addressed this issue. Based on the type of contracts Eskaton enters, it is not expected that the outcome of actions, if any, that FASB may take, would have an impact on the financial statements of Eskaton.

Eskaton is obligated to provide future services and the use of the EVC facility to the residents. Residents are charged monthly maintenance fees which are used to pay routine operating expenses of EVC. Management has determined that the deferred revenue from unamortized EVC membership fees and future monthly fees exceed the present value of the net cost of future services and use of the EVC facility to be provided to residents as of December 31, 2004 and 2003, discounted at 7.00%. Accordingly, Eskaton has not recorded a liability to provide future services as of December 31, 2004 and 2003.

(16) Commitments and Contingencies

Eskaton is a defendant in various legal actions arising from its normal conduct of business. It is the opinion of Eskaton's management, after consulting with legal counsel, that the outcome of such matters will not have a material adverse effect on the financial position or results of operations of Eskaton.

(17) Self-Insured Workers' Compensation

Eskaton and its subsidiaries are self-insured for workers' compensation deductibles up to \$1,000,000 per claim (\$750,000 during 2003) with a stop loss of \$25,000,000 per claim. Accruals have been made for estimated liabilities arising for workers' compensation claims, including estimates for incurred but not reported claims. Eskaton is party to an irrevocable standby letter of credit totaling \$2,800,000 and \$2,213,358, at December 31, 2004 and 2003, respectively, with the State of California self-insurance plans named as beneficiary. In Eskaton's past experience, no claims have been made against this financial instrument. Management does not expect any material loss to result from this off-balance sheet instrument because performance is not expected to be required, and, therefore, is of the opinion that the fair value of this instrument is zero. At December 31, 2004 and 2003, \$3,505,000 and \$2,766,700, respectively, of securities were pledged as collateral for the letter of credit. These securities are included in investments in the consolidated balance sheets.

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(18) Professional Liability Insurance

Eskaton maintains claims-made commercial professional liability insurance coverage with California Healthcare Insurance Company covering losses up to \$5,000,000 per claim, annual aggregate of \$15,000,000, with a \$10,000 deductible per claim. Additionally, Eskaton maintains tail coverage for unreported claims. Eskaton has recorded a liability of \$1,174,000 and \$774,000 for the tail coverage for the years ended December 31, 2004 and 2003, respectively.

(19) Concentrations of Credit Risk

Eskaton's financial instruments that are exposed to concentrations of credit risk consist primarily of its accounts receivable, assets limited as to use, and interest rate swap agreements.

Eskaton's operating facilities are located in the Sacramento, California metropolitan area. Eskaton grants credit without collateral to its patients and residents, most of whom are insured under third-party payor agreements. Receivables (before allowances for uncollectible accounts and net of applicable contractual allowances) from patients and third-party payors at December 31, are as follows (in thousands):

	2004	2003
Medicare	\$ 745	738
Medi-Cal	828	776
Other third-party payors	1,514	1,815
Patients and residents	427	426
	\$ 3,514	3,755

(20) Functional Expenses

Eskaton provides health services, residential services, and community service programs within its geographic location. Expenses related to providing these services are as follows (in thousands):

	Years ended December 31	
	2004	2003 (as restated)
Health services	\$ 26,110	24,884
Residential services	30,833	26,407
Community service programs	839	743
Fundraising	142	124
General and administrative	8,819	9,602
	\$ 66,743	61,760

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

(21) Disclosures about Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair values of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents

Cash and cash equivalents include cash in bank and short-term money market accounts with original maturities of three months or less. The carrying amount approximates fair value because of the short maturity of these instruments.

Assets Limited As to Use

Assets limited as to use include assets held by trustees under regulatory and bond indenture agreements. The investments are carried at fair value, which is based on quoted market prices for these or similar investments.

Investments

Investments include assets set aside by the board of directors to be used only as designated by the board of directors. The investments are carried at fair value, which is based on quoted market prices for these or similar investments.

Notes Receivable

The carrying amount of the notes receivable approximates fair value due to the short-term nature of these instruments.

Interest Rate Swap Agreements

The interest rate swap agreements are carried at fair value. The fair value of the interest rate swap agreement for the 2000 bonds is based on the BMA Municipal Swap Index. The fair value of the interest rate swap agreements for the 1999 SAVRS is based upon the 24 month average actual pricing spreads between the actual trading patterns of the 1999 SAVRS and for the taxable SAVRS, the 1 month LIBOR Index, and for tax-exempt SAVRS, the BMA Municipal Swap Index.

Long-Term Debt

The fair value of Eskaton's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to Eskaton for debt of the same remaining maturities.

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The carrying amounts and fair values of Eskaton's financial instruments at December 31, are as follows (in thousands):

	2004		2003	
	Carrying amount	Fair value	Carrying amount	Fair value
Cash and cash equivalents	\$ 5,293	\$ 5,293	\$ 6,637	\$ 6,637
Assets limited as to use	10,376	10,376	9,436	9,436
Investments	18,258	18,258	16,841	16,841
Notes receivable	250	250	—	—
Interest rate swap agreements asset	1,642	1,642	1,860	1,860
Interest rate swap agreements liability	5,032	5,032	7,307	7,307
Long-term debt (as restated)	108,351	111,496	109,670	111,435

(22) Eskaton Village – Roseville (EVR)

Eskaton purchased 50 acres in Roseville in 1994 and had planned to construct a Continuing Care Retirement Community (CCRC). Preconstruction marketing had been underway since January 2001 and twenty percent (20%) reservation deposits had been accepted from potential residents since February 13, 2002. In November 2003, Eskaton decided that it was in its best interest not to develop the CCRC but instead to develop a different type of multi-service retirement community where many of the same services would be available. Similar to Eskaton Village Grass Valley, EVR will offer home ownership, apartment rentals and a variety of service options in a gated, age-restricted community. As a result of the decision not to develop the CCRC, deferred costs of acquiring initial CCRC membership contracts at EVR were written off in 2003 (see note 2).

During 2004, Eskaton entered into an agreement to sell 40 acres of the land in 2005 or 2006 to a homebuilder who will construct the owner-occupied patio homes. Eskaton will build an assisted living and congregate housing facility on the remaining 10 acres. The project construction is currently scheduled to commence in mid-2005. At December 31, 2004, the carrying value of these assets are \$14,080,000, which are included in property and equipment in the consolidated balance sheet.

(23) Management Agreements

Eskaton manages several affordable housing apartment complexes for seniors and congregate and assisted living facilities. Included in other revenue for the years ended December 31, 2004 and 2003 is \$1,038,000 and \$831,000, respectively, from the management agreements. Also included in other revenue is cost recovery revenue from employee lease agreements with owners of managed facilities of \$3,215,000 and \$510,000 for the years ended December 31, 2004 and 2003, respectively.

(24) Subsequent Event

In August 2005, Eskaton approved a plan which among other things, EVGV will become a member of the Obligated Group upon completion of a bond issuance that will refinance the existing debt related to the Series 2000 bonds and the Series 1998 Certificates.

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

The following tables (dollars in thousands) set forth certain historical financial information of the current Eskaton Obligated Group, EVGV, and certain unaudited pro forma combined financial information of the New Eskaton Obligated Group on a pro forma basis as if EVGV had become a member of the Eskaton Obligated Group as of January 1, 2003. The formation of the New Eskaton Obligated Group is dependent upon the issuance of the Series 2005 bond offering.

Assets	2004		Unaudited Proforma New Eskaton Obligated Group Combined
	Historical		
	Eskaton Obligated Group Combined	Eskaton Village – Grass Valley	
Current assets:			
Cash and cash equivalents	\$ 3,173	1,780	4,953
Assets limited as to use	1,529	233	1,762
Investments	6,769	—	6,769
Accounts receivable, less allowance for uncollectible accounts of \$227	3,176	21	3,197
Other receivables, less allowance for uncollectible accounts of \$870	970	87	1,057
Due from related parties	5,929	—	5,929
Inventories	200	8	208
Deposits and prepaid expenses	336	164	500
Total current assets	22,082	2,293	24,375
Assets limited as to use, net of amount required for current liabilities	7,011	1,603	8,614
Investments	10,789	—	10,789
Property and equipment, net	70,205	14,942	85,147
Other assets:			
Unrecognized pension prior service cost	1,237	—	1,237
Deferred financing costs	2,447	324	2,771
Interest rate swap agreements	—	1,642	1,642
Deferred costs of acquiring initial CCRC membership contacts, net of accumulated amortization of \$1,599	—	—	—
Investment in healthcare-related businesses	569	—	569
CCRC associate member trust	4,607	—	4,607
Other	455	—	455
Total assets	\$ 119,402	20,804	140,206

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Liabilities and Net (Liabilities) Assets	2004		
	Historical		Unaudited Proforma
	Eskaton Obligated Group Combined	Eskaton Village – Grass Valley	New Eskaton Obligated Group Combined
Current liabilities:			
Current maturities of long-term debt	\$ 1,259	240	1,499
Current portion of deferred revenue from unamortized CCRC membership fees	1,906	—	1,906
Deposit on unoccupied CCRC units	354	—	354
Accounts payable	1,006	39	1,045
Due to related parties	616	94	710
Estimated third-party payor settlements	1	—	1
Accrued liabilities:			
Payroll and payroll taxes	1,058	23	1,081
Vacation	817	23	840
Current portion of self-insured workers' compensation	1,357	—	1,357
Interest	435	201	636
Tail	1,174	—	1,174
Other	315	56	371
Total current liabilities	10,298	676	10,974
Other liabilities:			
Self-insured workers' compensation, net of current portion	1,071	—	1,071
CCRC associate member trust	4,607	—	4,607
Interest rate swap agreements	5,032	—	5,032
Unfunded pension obligation	1,999	—	1,999
Other	516	925	1,441
	13,225	925	14,150
Long-term debt, less current maturities (as restated)	80,158	20,581	100,739
Deferred revenue from unamortized CCRC membership fees, net of current portion	28,212	—	28,212
Total liabilities (as restated)	131,893	22,182	154,075
Total net (liabilities) assets:			
Unrestricted (as restated)	(12,501)	(1,378)	(13,879)
Temporarily restricted	10	—	10
Permanently restricted	—	—	—
Total net (liabilities) assets (as restated)	(12,491)	(1,378)	(13,869)
Commitments and contingencies			
Total liabilities and net (liabilities) assets	\$ 119,402	20,804	140,206

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

	2004		
	Historical		Unaudited
	Eskaton Obligated Group Combined (as restated)	Eskaton Village – Grass Valley (as restated)	Proforma New Eskaton Obligated Group Combined
Unrestricted revenues, gains, and other support:			
Net patient service revenue	\$ 26,101	—	26,101
Residential service revenue, including amortization of CCRC membership fees of \$2,106	27,279	4,016	31,295
Investment income	1,978	37	2,015
Other, net	3,454	256	3,710
Change in fair value of derivative activities	2,275	(190)	2,085
Net assets released from restrictions used for operations	2	—	2
Total revenues, gains, and other support	<u>61,089</u>	<u>4,119</u>	<u>65,208</u>
Expenses:			
Salaries and wages	25,519	977	26,496
Employee benefits	8,205	275	8,480
Supplies	2,910	346	3,256
Purchased services and other	6,499	765	7,264
Ancillary costs	1,942	—	1,942
Insurance/taxes	554	31	585
Utilities	2,211	230	2,441
Building and equipment rental	41	—	41
Depreciation and amortization	4,472	813	5,285
Interest	5,426	920	6,346
Provision for uncollectible accounts	62	—	62
Loss on disposal of property and equipment	31	—	31
Total expenses	<u>57,872</u>	<u>4,357</u>	<u>62,229</u>
Excess (deficiency) of revenues, gains and other support over expenses	3,217	(238)	2,979
Change in net unrealized gains (losses) on investment securities	686	3	689
Change in pension valuation	1,657	—	1,657
Transfers between related entities	(86)	—	(86)
Increase (decrease) in unrestricted net (liabilities) assets	5,474	(235)	5,239
Unrestricted net (liabilities) assets, beginning of year	<u>(17,980)</u>	<u>(1,138)</u>	<u>(19,118)</u>
Unrestricted net (liabilities) assets, end of year	<u>\$ (12,506)</u>	<u>(1,373)</u>	<u>(13,879)</u>

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Assets	2003		
	Historical		Unaudited Proforma
	Eskaton Obligated Group Combined	Eskaton Village – Grass Valley	New Eskaton Obligated Group Combined
Current assets:			
Cash and cash equivalents	\$ 5,100	1,387	6,487
Assets limited as to use	591	233	824
Investments	6,241	—	6,241
Accounts receivable, less allowance for uncollectible accounts of \$283	3,341	26	3,367
Other receivables, less allowance for uncollectible accounts of \$870	875	121	996
Current portion of notes receivable	—	—	—
Due from related parties	3,258	—	3,258
Inventories	144	6	150
Deposits and prepaid expenses	349	26	375
Total current assets	<u>19,899</u>	<u>1,799</u>	<u>21,698</u>
Assets limited as to use, net of amount required for current liabilities	7,012	1,600	8,612
Investments	9,956	—	9,956
Property and equipment, net	72,741	15,707	88,448
Other assets:			
Unrecognized pension prior service cost	1,629	—	1,629
Deferred financing costs	2,568	336	2,904
Interest rate swap agreements	—	1,860	1,860
Deferred costs of acquiring initial CCRC membership contacts, net of accumulated amortization of \$1,571	24	—	24
Investment in healthcare-related businesses	569	—	569
CCRC associate member trust	5,066	—	5,066
Other	533	—	533
	<u>10,389</u>	<u>2,196</u>	<u>12,585</u>
Total assets	<u>\$ 119,997</u>	<u>21,302</u>	<u>141,299</u>

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

Liabilities and Net (Liabilities) Assets	2003		
	Historical		Unaudited Proforma New Eskaton Obligated Group Combined
	Eskaton Obligated Group Combined (as restated)	Eskaton Village – Grass Valley (as restated)	
Current liabilities:			
Current maturities of long-term debt	\$ 1,036	221	1,257
Current portion of deferred revenue from unamortized CCRC membership fees	1,900	—	1,900
Deposit on unoccupied CCRC units	354	—	354
Accounts payable	1,453	68	1,521
Construction contracts payable	251	—	251
Due to related parties	580	47	627
Estimated third-party payor settlements	27	—	27
Accrued liabilities:			—
Payroll and payroll taxes	881	15	896
Vacation	854	20	874
Current portion of self-insured workers' compensation	1,265	—	1,265
Interest	259	204	463
Tail	774	—	774
Other	304	65	369
Total current liabilities	<u>9,938</u>	<u>640</u>	<u>10,578</u>
Other liabilities:			
Self-insured workers' compensation, net of current portion	452	—	452
CCRC associate member trust	5,066	—	5,066
Interest rate swap agreements	7,307	—	7,307
Unfunded pension obligation	3,554	—	3,554
Other	648	957	1,605
	<u>17,027</u>	<u>957</u>	<u>17,984</u>
Long-term debt, less current maturities (as restated)	81,418	20,843	102,261
Deferred revenue from unamortized CCRC membership fees, net of current portion	29,585	—	29,585
Total liabilities (as restated)	<u>137,968</u>	<u>22,440</u>	<u>160,408</u>
Total net (liabilities) assets:			
Unrestricted (as restated)	(17,980)	(1,138)	(19,118)
Temporarily restricted	9	—	9
Permanently restricted	—	—	—
Total net (liabilities) assets (as restated)	<u>(17,971)</u>	<u>(1,138)</u>	<u>(19,109)</u>
Commitments and contingencies			
Total liabilities and net (liabilities) assets	<u>\$ 119,997</u>	<u>21,302</u>	<u>141,299</u>

ESKATON AND SUBSIDIARIES

Notes to Consolidated Financial Statements

December 31, 2004 and 2003

	2003		
	Historical		Unaudited
	Eskaton Obligated Group Combined (as restated)	Eskaton Village -- Grass Valley (as restated)	Proforma New Eskaton Obligated Group Combined
Unrestricted revenues, gains, and other support:			
Net patient service revenue	\$ 24,916	—	24,916
Residential service revenue, including amortization of CCRC membership fees of \$2,013	25,270	2,508	27,778
Investment income	494	109	603
Other, net	3,537	166	3,703
Change in fair value of derivative activities	(2,767)	107	(2,660)
Net assets released from restrictions used for operations	4	—	4
Total revenues, gains, and other support	51,454	2,890	54,344
Expenses:			
Salaries and wages	24,457	773	25,230
Employee benefits	8,007	213	8,220
Supplies	3,548	235	3,783
Purchased services and other	4,446	574	5,020
Ancillary costs	2,019	—	2,019
Insurance/taxes	489	28	517
Utilities	2,231	215	2,446
Building and equipment rental	30	—	30
Depreciation and amortization	4,561	808	5,369
Interest	5,380	848	6,228
Provision for uncollectible accounts	103	—	103
Loss on disposal of property and equipment	—	—	—
Total expenses	55,271	3,694	58,965
Excess (deficiency) of revenues, gains and other support over expenses	(3,817)	(804)	(4,621)
Change in net unrealized gains (losses) on investment securities			
	2,074	(6)	2,068
Change in pension valuation			
	297	—	297
Transfers between related entities			
	(430)	—	(430)
Increase (decrease) in unrestricted net (liabilities) assets	(1,876)	(810)	(2,686)
Unrestricted net (liabilities) assets, beginning of year	(16,104)	(328)	(16,432)
Unrestricted net (liabilities) assets, end of year	\$ (17,980)	(1,138)	(19,118)

APPENDIX C

Summary of Principal Documents

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SUMMARY OF PRINCIPAL DOCUMENTS

Brief descriptions of the Master Indenture, the Sixth Supplemental Master Indenture, the Bond Indenture, the Loan Agreement and the Deeds of Trust are included hereafter in this Official Statement. Such descriptions do not purport to be comprehensive or definitive. All references herein to the Master Indenture, the Sixth Supplemental 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 2005 Bonds at the office of the Authority and thereafter at the office of the related Bond Trustee. All references to the Bonds are qualified in their entirety by reference to the definitive form thereof and the information with respect thereto included in the Bond Indenture.

The Series 2005 Bonds are secured by the Bond Indenture, the Loan Agreement, the Deeds of Trust and by Obligation No. 7, and all references herein to the Bonds, the Bond Indenture and the Loan Agreement should be interpreted accordingly.

As more fully described in the forepart of this Official Statement, payment of the principal of and interest on (but not the Purchase Price with respect to) the Bonds is guaranteed by a municipal bond insurance policy issued by Radian Asset Assurance Inc. The Series 2005 Bonds will be issued in the Auction Mode, and will not be supported initially by a letter of credit, line of credit, standby bond purchase agreement or any other liquidity facility. Certain rights otherwise available to the holders of the Bonds have been reserved for the credit enhancer as described herein.

DEFINITIONS

Set forth below are definitions of certain terms used in the Master Indenture, the Sixth Supplemental Master Indenture, the Bond Indenture, the Loan Agreement and the Deeds of Trust. Certain definitions included below have been amended by the Sixth Supplemental Master Indenture.

“*ACA*” means ACA Financial Guaranty Corporation, a Maryland stock insurance company.

“*ACA Insurance*” means Bond Insurance Policy, No. NI0799-35, effective July 28, 1999, issued by ACA to secure scheduled payments of principal and interest on the Series 1999 Bonds.

“*Actual Knowledge*” means the actual knowledge of any matter by an authorized officer of the Trustee with responsibility for the Master Indenture and located at the Corporate Trust Office.

“*Additional Indebtedness*” means any Indebtedness (including all Obligations, other than any Guaranty by any Obligated Group Member of Indebtedness of any other Obligated Group Member) incurred subsequent to the issuance of Obligation No. 7 under the Sixth Supplemental Master Indenture.

“*Adjusted Annual Operating Revenues*” means, unless the context provides otherwise, as to any period, operating revenues, plus unrestricted interest income, of the Obligated Group for such period, less adjustments for contractual service allowances, bad debts and free services, all as determined in accordance with generally accepted accounting principles and in such a manner that no portion of operating revenues is included more than once.

“*Affiliate*” means a corporation, partnership, joint venture, association, business trust or similar entity organized under the laws of the United States of America or a state thereof which is directly controlled by an Obligated Group Member or any other Affiliate. For purposes of this definition, control means the power to direct the management and policies of a Person through ownership of at least 50% of

its voting securities, or the right to designate or elect at least 50% of the members of its Governing Body by contract or otherwise.

“*All Hold Rate*” means, as of any Auction Date, a per annum rate equal to 55% of the Auction Rate Index in effect on such Auction Date.

“*Appraised Value*” means the fair market value as set forth in a written appraisal conducted no more than three years prior to the date such value is applied, by an independent MAI appraiser.

“*Auction*” means each periodic implementation of the Auction Procedures.

“*Auction Agent*” means the auction agent appointed in accordance with the provisions of Exhibit C to the Bond Indenture.

“*Auction Mode*” means the Mode during which Bonds bear interest at the Auction Rate.

“*Auction Period*” means for any Auction Rate Security while it is in the Auction Mode:

(i) the period from and including any Auction Rate Mode Change Date, to and including the first Auction Date following such Auction Rate Mode Change Date, as applicable; and

(ii) thereafter until a Mode Change Date or until the Maturity Date of such Auction Rate Security, each period of 7 days (unless changed as described in Section 1.10 of this Exhibit C) from and including the last Interest Payment Date for the immediately preceding Auction Period, to and including the next succeeding Auction Date or, in the event of an Auction Period with an Interest Payment Date on a Monday, the Sunday following the next succeeding Auction Date, or in the event of a change to a different Mode, to but excluding the Mode Change Date;

provided, if any day that would be the last day of any such period does not immediately precede a Business Day, such period shall end on the next day which immediately precedes a Business Day.

“*Auction Procedures*” means the procedures for conducting Auctions for the Auction Rate Securities during an Auction Period set forth in the Bond Indenture.

“*Auction Rate*” means the rate of interest to be borne by the Auction Rate Securities during each Auction Period, not greater than the Maximum Rate, determined in accordance with terms of the Bond Indenture which (i) if Sufficient Clearing Bids exist, will be the Winning Bid Rate; *provided, however*, that if all of the Auction Rate Securities are the subject of Submitted Hold Orders, the Auction Rate will be the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, will be the Maximum Rate.

“*Auction Rate Securities*” means the Bonds during any Auction Period.

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

“*Authorized Representative*” means, (1) with respect to the Authority, the President, Chief Financial Officer, or Secretary of the Authority or any other officer authorized by the Authority to take action, and (2) with respect to the Corporation, or other Obligated Group Member, as defined in the Master Indenture.

“Balloon Indebtedness” means Long-Term Indebtedness, or Short-Term Indebtedness which is intended to be refinanced upon or prior to its maturity so that such Short-Term Indebtedness and the Indebtedness intended to be used to refinance such Short-Term Indebtedness will be outstanding for a total of more than one year as certified in an Officer’s Certificate, 25% or more of the original principal of which matures (or is payable at the option of the holder) in the same Fiscal Year, if such 25% or more is not to be amortized below 25% by mandatory redemption prior to such Fiscal Year, or 25% or more of the original principal of which is payable at the option of the holder in the same Fiscal Year, if such 25% or more is not to be amortized below 25% by mandatory redemption prior to such Fiscal Year.

“Beneficial Owner” of Auction Rate Securities means the customer of a Broker Dealer for such Auction Rate Securities who is listed on the records of that Broker Dealer (or, if applicable, the Auction Agent) as the holder of such Auction Rate Securities.

“Bonds” means the \$49,000,000 in aggregate principal amount Revenue Refunding Bonds, Series 2005 (Eskaton Properties, Incorporated) Auction Rate Securities issued by the Authority pursuant to the Bond Indenture.

“Bond Insurance Policy” means the financial guaranty insurance policy issued by the Bond Insurer insuring the payment when due of the principal of and interest on the Bonds as provided in the Bond Indenture.

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

“Bond Trustee” means The Bank of New York Trust Company, N.A.

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

“Book Value” when used in connection with Property, Plant and Equipment or other Property of an Obligated Group Member means the value of such Property, net of accumulated depreciation and amortization, determined in accordance with generally accepted accounting principles, for the most recent Fiscal Year for which audited Financial Statements are available; and when used in connection with Property, Plant and Equipment or other Property of the Obligated Group, means the aggregate of the values so determined with respect to such Property of each Obligated Group Member determined in such a manner that no portion of such value of Property of any Obligated Group Member is included more than once.

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

“Break Even Occupancy” means with respect to any newly-constructed capital improvements intended to be occupied by residents of the Facilities, the occupancy of such capital improvements at a level which would be sufficient, as shown in the report of a Consultant, to produce income sufficient to pay the expenses attributed to such capital improvements.

“*Broker Dealer*” of Auction Rate Securities means the customer of a Broker Dealer for such Auction Rate Securities who is listed on the records of that Broker Dealer (or, if applicable, the Auction Agent) as the holder of such Auction Rate Securities.

“*Business Day*” means a day which is not (a) a Saturday, Sunday or legal holiday on which banking organizations in the State of New York or the city in which the principal office of the Liquidity Facility Provider, the Bond Insurer, the Remarketing Agent, the Tender Agent, the Auction Agent, the Market Agent, any Broker-Dealer or the Bond Trustee is located are authorized by law to close and on which such entity is in fact closed or (b) a day on which the New York Stock Exchange is closed.

“*Cash Test Date*” means the last day of the first six months of each Fiscal Year and the last day of each Fiscal Year.

“*Certificate*” and “*Statement*” of the Corporation or any other Obligated Group Member mean, respectively, a written Certificate or statement signed in the name of the Corporation or such other Obligated Group Members by an Authorized Representative of the Corporation or Obligated Group Member, respectively. A Certificate or Statement of any other Person means a written Certificate or statement signed by such Person, if an individual, and otherwise on behalf of such Person by an officer, partner or other authorized representative of such Person. If and to the extent required by the Master Indenture, each such instrument shall include the statements provided in the Master Indenture.

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

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

“*Consultant*” means a firm which is not, and no member, stockholder, director, officer or employee of which is, an officer or employee of any Obligated Group Member or any Affiliate, and which is a professional consultant acceptable to the Master Trustee and having the skill and experience necessary to render the particular report required by the provision hereof in which such requirement appears.

“*Corporate Trust Office*” means the office of the Master Trustee, or any other trustee or tender agent, as the case may be, which at the date of the Loan Agreement is located at 700 S. Flower Street, Suite 500, Los Angeles, California 90017, except that with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office or agency of the Trustee at which, at any particular time, its corporate trust business is conducted.

“*Corporation*” means Eskaton Properties, Incorporated, a California nonprofit public benefit corporation, or any entity which is the surviving, resulting or transferee entity in any merger, consolidation or transfer of assets permitted under the Master Indenture.

“*Daily Mode*” means the Mode during which Bonds bear interest at the Daily Rate.

“*Daily Rate*” means an interest rate that is determined on each Business Day with respect to the Bonds in the Daily Mode pursuant to the terms of the Bond Indenture.

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

“*Debt Service Reserve Fund Requirement*” means the lesser of (i) the maximum amount of principal and interest which shall be payable during the current or any succeeding Bond Year on the Bonds then outstanding (which interest shall be, with respect to any Bonds subject to an interest rate swap, the rate payable by the Corporation on such interest rate swap), (ii) an amount equal to 10% of the Proceeds of the Bonds or (iii) an amount equal to 125% of the average annual debt service with respect to the Bonds. For purposes of this definition, the Bonds shall be deemed to bear interest the greater of (i) the average rate borne by such Bonds for the 12 complete months preceding the date of calculation and (ii) the Bond Buyer 25 Bond Revenue Index most recently published in The Bond Buyer, or any successor publication thereto, prior to the date of calculation. The Corporation shall provide written confirmation of the Debt Service Reserve Fund Requirement to the Bond Trustee upon request.

“*Days Cash on Hand*” means, as of any particular evaluation date, the result, in number of days, of the following calculation based on the Obligated Group’s unaudited accounting records certified by an Authorized Representative of the Obligated Group Representative (or, if the evaluation date is the last day of a Fiscal Year, based upon the audited Financial Statements for such Fiscal Year) (Unrestricted Liquid Funds) divided by (total cash operating expenses for the twelve-month period ending on the evaluation date divided by 365).

“*Debt Service Coverage Ratio*” with respect to any Person means, for any period of one year, the ratio determined by dividing the Income Available for Debt Service for such period by Maximum Annual Debt Service.

“*Debt Service Requirement*” means, for any period of time for which such determination is made, the aggregate of the scheduled payments to be made in respect of principal (or mandatory sinking fund or installment purchase price or lease rental or similar payments) and interest on Outstanding Long-Term Indebtedness of each Obligated Group Member during such period, taking into account:

(a) with respect to Indebtedness represented by a Guaranty of obligations of a Person which is not an Obligated Group Member, the amount of the principal and interest payments of the guaranteed Indebtedness, provided that so long as (1) any such Guaranty is a contingent liability under generally accepted accounting principles, (2) no Obligated Group Member has within the last three Fiscal Years made a payment on said Person’s Indebtedness; and (3) said Person maintains a Debt Service Coverage Ratio within the ranges set forth below for the most recent year for which audited Financial Statements are available, and the guaranteed Indebtedness is not in default, “Debt Service Requirement” shall take into account the corresponding percentage of the principal and interest payments of the guaranteed Indebtedness:

<u>Debt Service Coverage Ratio</u>	<u>Percentage</u>
Greater than 2.0	25%
Greater than 1.5 but not greater than 2.0	50%
Greater than 1.25 but not greater than 1.5	75%
Not greater than 1.25	100%

(b) with respect to Balloon Indebtedness, the amount of principal and interest deemed payable during such period determined under the provisions of the Master Indenture;

(c) with respect to Variable Rate Indebtedness, the amount of interest deemed payable during such period determined under the provisions of the Master Indenture, as adjusted to reflect the current terms thereof;

(d) with respect to payments with respect to Indebtedness for which an Obligated Group Member has entered into an Interest Rate Agreement, during the term of such Interest Rate Agreement and so long as the provider of such Interest Rate Agreement and its related guarantor, if any, is not in default thereunder and either the provider or its related guarantor, if any, does not have a long-term unsecured credit or claims-paying rating below the three highest rating categories of any of the Rating Agencies, for purposes of any calculation of interest on such Long-Term Indebtedness, the interest rate (or portion thereof) on such Indebtedness of such maturity or maturities shall be determined as if such Indebtedness bore interest at the fixed interest rate or the variable interest rate, as the case may be, payable by an Obligated Group Member after giving effect to such Interest Rate Agreement. Any obligations under the Interest Rate Agreement, whether or not secured by an Obligation, shall not be separately included in any calculation of interest on Long-Term Indebtedness. No additional Indebtedness shall be deemed to arise when an Interest Rate Agreement is entered into or terminated. An Obligation may be issued in a notional amount to secure an Interest Rate Agreement and shall not be deemed to be Outstanding for any purpose other than entitlement to the interest payments and any termination payments thereunder, secured equally and ratably with all other interest payments on Obligations;

(e) provided, however, that in reference to Long-Term Indebtedness, principal or interest shall be excluded from the determination of the Debt Service Requirement to the extent that escrowed or trustee funds (such as capitalized interest funds and defeasance escrows, and, only with respect to the final principal and/or interest payment, debt service reserve funds), together with interest thereon, are available to pay such principal or interest; and provided, further, 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 current repayment obligations to a bank or insurance company under a reimbursement agreement which secures such Related Bonds) for purposes of the various financial covenants contained herein, but only for such purposes, (1) if there is no indebtedness outstanding under such reimbursement agreement, then the amounts which may in the future become owing under the reimbursement agreement as a result of drawings under the related letter of credit shall be disregarded and (2) if there is indebtedness outstanding under such reimbursement agreement, then the amounts due at the times provided in the reimbursement agreement as a result of drawings under the related letter of credit shall be included in the determination of the Debt Service Requirement.

“Deed of Trust” (and collectively, *“Deeds of Trust”*) means a Deed of Trust with Fixture Filing and Security Agreement by an Obligated Group Member, as trustor in favor of the Master Trustee, as beneficiary, for the benefit of the holders of Obligations issued and Outstanding under the Master Indenture, as amended, modified or supplemented from time to time.

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

“Eligible Moneys” means (a) moneys (i) paid or deposited by the Corporation or any other Member of the Obligated Group to or with the Bond Trustee, (ii) continuously held in any fund, account or subaccount established hereunder which is subject to the lien of this Bond Indenture and in which no

other moneys which are not Eligible Moneys are held and (iii) which have so been on deposit with the Bond Trustee for at least 367 days from their receipt by the Bond Trustee, during and prior to which period no petition by or against the Authority, the Corporation, any other Member of the Obligated Group or any “affiliate” thereof (as defined in Title 11 of the United States Code) to which such moneys are attributable under any bankruptcy or similar law now or hereafter in effect shall have been filed and no bankruptcy or similar proceeding otherwise initiated (unless such petition or proceeding shall have been dismissed and such dismissal be final and not subject to appeal), together with investment earnings on such moneys; (b) moneys received by the Bond Trustee pursuant to the Liquidity Facility which are held in any fund, account or subaccount established hereunder in which no other moneys which are not Eligible Moneys are held, together with investment earnings on such moneys; (c) proceeds from the remarketing of any Bonds pursuant to the provisions of the Bond Indenture to any person other than the Authority, the Corporation, any other Member of the Obligated Group or any “affiliate” thereof (as defined in Title 11 of the United States Code); (d) proceeds from the issuance and sale of refunding bonds, together with the investment earnings on such proceeds, if there is delivered to the Bond Trustee at the time of issuance and sale of such bonds an opinion of nationally recognized bankruptcy counsel acceptable to the Bond Trustee, the Bond Insurer and each Rating Agency then maintaining a rating on the Bonds bearing interest at a Daily Rate or Weekly Rate (which opinion may assume that no Bondholders are “insiders” within the meaning of Title 11 of the United States Code) to the effect that the use of such proceeds and investment earnings to pay the principal of, premium, if any, or interest on the Bonds would not be avoidable as preferential payments under Section 547 of the United States Bankruptcy Code recoverable under Section 550 of the United States Bankruptcy Code should the Authority, the Corporation, any other Member of the Obligated Group or any “affiliate” thereof (as defined in Title 11 of the United States Code) become a debtor in a proceeding commenced thereunder; and (e) moneys which are derived from any other source, together with the investment earnings on such moneys, if the Bond Trustee has received an unqualified opinion of nationally recognized bankruptcy counsel acceptable to the Bond Trustee, the Bond Insurer and each Rating Agency then maintaining a rating on the Bonds bearing interest at a Daily Rate or Weekly Rate (which opinion may assume that no Bondholders are “insiders” within the meaning of Title 11 of the United States Code) to the effect that payment of such amounts to bondholders would not be avoidable as preferential payments under Section 547 of the United States Bankruptcy Code recoverable under Section 550 of the United States Bankruptcy Code should the Authority, the Corporation, any other Member of the Obligated Group or any “affiliate” thereof (as defined in Title 11 of the United States Code) become a debtor in a proceeding commenced thereunder; provided that such proceeds, moneys or income shall not be deemed to be Eligible Moneys or available for payment of the Bonds if, among other things, an injunction, restraining order or stay is in effect preventing such proceeds, moneys or income from being applied to make such payment. For the purposes of this definition, the term “moneys” shall include cash and any investment securities including, without limitation, Government Obligations.

“Entrance Fees” means fees, other than security deposits, monthly rentals or monthly service charges, paid to a Person by residents of living units for the purpose of obtaining the right to reside in those living units including any refundable resident deposits described in any lease or similar residency agreements with respect to those living units.

“Event of Default” means any of the events specified in the Loan Agreement or the Master Indenture.

“Existing Owner” means a Person or a Broker Dealer who is listed as the Beneficial Owner of the Auction Rate Securities in the records of the Auction Agent.

“Expense Fund” means the fund by that name created under the Bond Indenture.

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

“*Extendable Indebtedness*” means Long-Term Indebtedness that is required to be purchased or redeemed, at the option of the holder thereof, prior to its stated maturity date (which purchase or redemption requirement may be subject to conditions, including without limitation the availability of certain funds), but no more frequently than once every year.

“*Facilities*” means all real property of the Obligated Group, and all real property added from time to time to the real property and all improvements from time to time located thereon.

“*Financed Property*” means Property acquired by an Obligated Group Member, which acquisition was financed with the proceeds of Obligations issued under this Master Indenture.

“*Financial Statements*” means the consolidated or combined financial statements, which eliminate all intercompany items, of the Obligated Group.

“*Fiscal Year*” means, for any Person, the period beginning on January 1 of each year and ending on the next succeeding December 31 or any other period hereafter selected and designated as the official fiscal year period of such Person.

“*Governing Body*” means, when used with respect to any Obligated Group Member, its board of directors, board of trustees, or other board or group of individuals, excluding corporate members, in which the powers of a board of directors or board of trustees are vested.

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

“*Gross Revenue Fund*” means the fund so designated and established pursuant to the Master Indenture.

“*Gross Revenues*” means, unless the context provides otherwise, all revenues, income, receipts and money received in any period by the Obligated Group (other than the proceeds of borrowing), including, but without limiting the generality of the foregoing:

(a) gross revenues derived from its or their operation of the facilities owned and operated by one or more Obligated Group Members;

(b) gifts, grants, bequests, donations and contributions exclusive of any gifts, grants, bequests, donations and contributions to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium, if any, and interest on Indebtedness or for the payment of operating expenses;

(c) all of the following and the proceeds derived therefrom;

(1) insurance, except to the extent the use thereof is otherwise permitted for use other than for the payment of principal of, redemption premium, if any, and interest on Indebtedness or for the payment of operating expenses by the Master Indenture,

(2) accounts receivable,

(3) securities and other investments,

(4) inventory and other tangible and intangible property,

(5) contract rights and other rights and assets now or hereafter owned, held or possessed by or on behalf of any Obligated Group Member; and

(6) rentals received from the lease of office space.

(d) proceeds of entrance fees, net of refunds.

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

“*Immediate Notice*” means notice by telephone, email transmission or telecopier to such address as the addressee shall have provided in writing, promptly followed by written notice by first class mail, postage prepaid; provided, however, that if any Person required to give an Immediate Notice shall not have been provided with the necessary information as to the telephone, email transmission or telecopier number of an addressee, Immediate Notice shall mean written notice by first class mail, postage prepaid.

“*Income Available for Debt Service*” means, unless the context provides otherwise, (1) with respect to the Obligated Group as to any period of time, net income, or excess of revenues (including entrance fees, net of refunds) over expenses (excluding entrance fees amortized, unrealized gains and losses on investments and Interest Rate Agreements, and income from all Irrevocable Deposits) before depreciation, amortization, and interest expense or capitalized lease payments, as determined in accordance with generally accepted accounting principles; provided, that no determination thereof shall take into account:

(a) any revenue or expense of a Person which is not an Obligated Group Member or any gain or loss resulting from either the early extinguishment or refinancing of Indebtedness or the sale, exchange or other disposition of capital assets not made in the ordinary course of business;

(b) gifts, grants, bequests, donations or contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses;

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

(d) noncash items; and

(e) Initial Entrance Fees;

and (2) with respect to any other person, the income available for debt service of such person determined in a manner substantially similar to that described above for the Obligated Group.

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

“Initial Entrance Fees” means Entrance Fees received in connection with the initial occupancy of any living unit not previously occupied.

“Insurance Consultant” means Keenan & Associates, or any other independent firm of professional insurance consultants appointed by the Corporation, knowledgeable in the operations of facilities such as the Facilities and having a favorable reputation for skill and experience in such work, which may be the insurance broker of one or more of the Obligated Group Members.

“Insurance Trustee” means Bank of New York.

“Interest Fund” means the fund by that name created under the Bond Indenture.

“Interest Payment Date” means

(a) with respect to Bonds in a Daily Mode or Weekly Mode, the first Business Day of each month;

(b) with respect to a Bond in the Auction Mode, for the Initial Period for the Bonds, January 6, 2006 and, thereafter, the Business Day immediately following the last day of each Auction Period; provided that if an Auction Period exceeds one year, the Interest Payment Date shall be the first January 1 or July 1 following the month in which such Auction Period commences and each January 1 or July 1 thereafter during such Auction Period and the Business Day immediately following the last day of such Auction Period;

(c) any Mode Change Date;

(d) the respective Maturity Dates of the Bonds; and

(e) with respect to Liquidity Facility Bonds, the dates set forth in the Reimbursement Agreement.

“Interest Rate Agreement” means any interest rate protection agreement, interest rate future agreement, interest rate option agreement, interest rate swap agreement, interest rate cap agreement, interest rate collar agreement, interest rate hedge agreement or other similar agreement or arrangement to which an Obligated Group Member is a party.

“Irrevocable Deposit” means the irrevocable deposit in trust of cash in an amount, or noncallable Government Obligations (or other securities permitted for such purpose pursuant to the terms of the documents governing the payment of or discharge of Indebtedness), the principal of and interest on which will be an amount, and under terms sufficient to pay all or a portion of the principal of, premium, if any, and interest on, as the same shall become due, any such Indebtedness which would otherwise be considered Outstanding. The trustee of such deposit may be the Master Trustee, a Related Bond Trustee or any other trustee authorized to act in such capacity.

“*LIBOR*” means, on any date of determination for an Auction Period, the offered rate (rounded up to the next highest one one thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

“*Lien*” means any mortgage or pledge of, security interest in or lien or encumbrance on any Property of any Obligated Group Member which secures any Indebtedness or any other obligation of the Obligated Group Member or which secures any obligation of any Person, other than an obligation to any Obligated Group Member, excluding liens on the lessor’s interest in Property in which the Obligated Group Member has only a leasehold interest unless the lien secures Indebtedness of any Obligated Group Member.

“*Liquid Assets*” means cash, marketable securities or other Property not constituting Property, Plant and Equipment.

“*Liquidity Facility*” means a standby bond purchase agreement, letter or line of credit or similar liquidity facility issued by a Liquidity Facility Provider which, by its terms, provides for the payment of the Purchase Price of Bonds tendered and not remarketed, furnished by the Corporation to the Tender Agent pursuant to the terms of the Loan Agreement, and any Substitute Liquidity Facility, which Liquidity Facility and all agreements relating to the obligation to reimburse the Liquidity Facility Provider for draws thereunder, if any, shall be approved by the Bond Insurer and the Authority. The Corporation is not required by the Loan Agreement to provide a Liquidity Facility for the Bonds in the Auction Mode.

“*Liquidity Facility Provider*” means (i) the commercial bank, savings institution, Bond Insurer or other financial institution or (ii) the Corporation or any company or group of companies with which the Corporation is affiliated providing a Liquidity Facility, in either case, which Liquidity Facility Provider is acceptable to the Bond Insurer.

“*Long-Term Indebtedness*” means all Indebtedness incurred or assumed by any Obligated Group Member for any of the following:

(a) Payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, longer than one year;

(b) Payments under leases which are capitalized in accordance with generally accepted accounting principles; and

(c) Payments under installment purchase contracts having an original term in excess of one year;

excluding any Short-Term Indebtedness.

“*Mandatory Purchase Date*” means: (1) any Mode Change Date; (2) unless the terms of the Bond Indenture are satisfied, any Substitute Liquidity Facility Date or the second Business Day preceding any Expiration Date; and (3) the second Business Day preceding any Termination Date.

“*Market Agent*” means Merrill, Lynch, Pierce, Fenner & Smith Incorporated or any successor market agent appointed in accordance with the terms of the Bond Indenture.

“*Master Indenture*” means the certain Master Trust Indenture dated as of July 1, 1999, originally between the Corporation and the Master Trustee, as originally executed and as it may be amended from time to time by any Supplemental Master Indentures.

“*Master Trustee*” means The Bank of New York Trust Company, N.A., and its successors and assigns in the trusts created under the Master Indenture.

“*Maximum Rate*” means the lesser of (a) 12% per annum, (b) the maximum interest rate permitted by law, and (c) with respect to Bonds in the Daily Mode and the Weekly Mode, the maximum interest rate provided by the Liquidity Facility to pay tenders of such Bonds.

“*Maximum Annual Debt Service*” means the highest Debt Service Requirement for the current or any succeeding Fiscal Year.

“*Mode*” means, as the context may require, the Auction Mode, the Daily Mode or the Weekly Mode.

“*Mode Change Date*” means the day following the last day of one Mode for any Bonds on which another Mode begins.

“*Non-Recourse Indebtedness*” means any Indebtedness which is not a general obligation and which is secured by a Lien on Property, Plant and Equipment of any Obligated Group Member, liability for which is effectively limited to the Property subject to such Lien with no recourse, directly or indirectly, to any other Property of any Obligated Group Member and which is incurred in connection with the purchase, acquisition, construction or equipping or Property acquired after the date of the Master Indenture.

“*Obligated Group*” means all Obligated Group Members.

“*Obligated Group Member*” means each signatory to the Master Indenture together with any Person which shall become an Obligated Group Member in accordance with the Master Indenture and not including any Person which shall have withdrawn from the Obligated Group.

“*Obligated Group Representative*” means initially the Corporation or such other Obligated Group Member or Members as may be designated pursuant to written notice to the Master Trustee executed by all of the Obligated Group Members.

“*Obligation*” means any obligation of the Obligated Group issued under the Master Indenture, as a joint and several obligation of the Corporation and each other Obligated Group Member, which may be in any form set forth in a Supplemental Master Indenture, including, but not limited to, bonds, obligations, debentures, loan agreements or leases.

“*Obligation No. 7*” means the obligation issued under the Master Indenture and the Sixth Supplemental Master Indenture payable to the Master Trustee for and on behalf of the ABAG Finance Authority for Nonprofit Corporations.

“*Officer’s Certificate*” means a Certificate signed by the president or chief executive officer, or the chief financial officer, or the chairman of the finance committee of the Governing Body of the Corporation, if such Certificate relates to the Obligated Group, or of the applicable Obligated Group Member, as the context provides. Each Officer’s Certificate presented under the Master Indenture shall state:

(a) that it is being delivered pursuant to (and shall identify the section or subsection of) the Master Indenture;

(b) whether the terms thereof are in compliance with the requirements to which such Officer's Certificate is delivered, or shall state in reasonable detail the nature of any noncompliance and the steps being taken to remedy such noncompliance; and

(c) that it is being delivered, together with any opinions, schedules, statements or other documents required in connection therewith.

"Outstanding" when used with reference to Obligations and other Indebtedness, means, as of any date of determination, all Obligations and 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 unless proof satisfactory to the Master Trustee has been received that any such Obligations are held by a bona fide purchaser,

(c) Obligations owned by any Obligated Group Member as provided in the Master Indenture,

(d) Indebtedness deemed paid and no longer Outstanding pursuant to the terms thereof, whether by payment, prepayment, defeasance or otherwise, and

(e) Indebtedness for which there has been made an Irrevocable Deposit, but only to the extent that payment of debt service on such Indebtedness is payable from such Irrevocable Deposit.

"Opinion of Bond Counsel" means an unqualified Opinion of Counsel, which shall be Bond Counsel, containing the opinion specifically required by the provisions of this Bond Indenture, which Opinion may be based upon a ruling or rulings of the Internal Revenue Service, and may include any exceptions contained in the Opinion of Bond Counsel delivered upon original issuance of the Bonds.

"Permitted Liens" means the liens described in the Master Trust Indenture.

"Potential Owner" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in Auction Rate Securities in addition to the Auction Rate Securities at the time owned by such Person, if any.

"Primary Obligor" means that Obligated Group Member or those Obligated Group Members primarily obligated to make any payment, whether at maturity, by acceleration upon redemption or otherwise, under the Master Indenture, any Supplemental Master Indenture, any Obligation or otherwise in connection with any borrowing under the Master Indenture as set forth in a Supplemental Master Indenture.

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

"Property" means any and all rights, titles and interests held by the Obligated Group in and to any and all property whether real or presumed, tangible or intangible and wherever situated.

“Property, Plant and Equipment” means, unless the context provides otherwise, all Property of the Obligated Group, which is property, plant and equipment under generally accepted accounting principles.

“Purchase Date” means with respect to Bonds during the Daily Mode or the Weekly Mode, a Business Day for which notice of tender as required by this Bond Indenture has been given.

“Purchase Price” means (i) an amount equal to the principal amount of any Bonds purchased on any Purchase Date, plus, in the case of any purchase of Bonds in the Daily Mode or the Weekly Mode, accrued and unpaid interest thereon, if any, to the Purchase Date, or (ii) an amount equal to the principal amount of Bonds purchased on a Mandatory Purchase Date, plus accrued and unpaid interest thereon, if any, to the Mandatory Purchase Date.

“Put Debt” means Long-Term Indebtedness that is payable or required to be purchased or redeemed prior to its stated maturity date at the initiative or the option of the holder thereof.

“Qualified Investments” means, for purposes of the Bond Indenture, to the extent permitted by applicable law:

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

(ii) Investments in any of the following obligations provided such obligations are backed by the full faith and credit of the United States (a) the Export-Import Bank of the United States, (b) the Federal Housing Administration, (c) the Government National Mortgage Association (“GNMA”), (d) the Rural Economic Community Development Administration (formerly known as the Farmers Home Administration), (e) the Federal Financing Bank, (f) the Department of Housing and Urban Development, (g) the General Services Administration, (h) the U.S. Maritime Administration or (i) the Small Business Administration.

(iii) Investments in direct obligations in any of the following agencies which obligations are not fully guaranteed by the full faith and credit of the United States (a) senior obligations by the Federal Home Loan Bank System, (b) senior debt obligations and participation certificates (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) issued by the Federal Home Loan Mortgage Corporation (“FHLMC”) or senior debt obligations and mortgage-backed securities (excluding stripped mortgage securities which are purchased at prices exceeding their principal amounts) of the Federal National Mortgage Association (“FNMA”) (c) obligations of the Resolution Funding Corporation (“REFCORP”) or (d) senior debt obligations of the Student Loan Marketing Association (“SLMA”) (excluding securities that do not have a fixed par value/or whose terms do not promise a fixed dollar amount at maturity or call date).

(iv) Investments in (a) U.S. dollar denominated deposit accounts, federal funds, bankers acceptances, and certificates of deposit of any bank whose short term debt obligations are rated “A-1+” by S&P and “P-1” by Moody's and maturing no more than 360 calendar days after the date of purchase (holding company ratings are not considered as rating of the bank) or (b) Certificates of deposit of any bank, which certificates are fully insured by the Federal Deposit Insurance Corporation (“FDIC”).

(v) Investments in money market funds rated “AAAm” or “AAAm-G” by S&P.

(vi) Commercial paper which is rated at the time of purchase in the single highest classification, "P-1" by Moody's, Inc. and "A-1+" by S&P and which matures not more than 270 calendar days after the date of purchase.

(vii) Pre-refunded municipal obligations defined as follows: any bonds or other obligations rated "AAA" by S&P and "Aaa" by Moody's (based on an irrevocable escrow account or fund) of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice.

(viii) Municipal obligations rated "Aaa/AAA" or general obligations of States with a rating of "A1/A+" or higher by both Moody's and S&P.

The value of the above investments (paragraphs i-viii) shall be determined as follows:

"Value", which shall be determined as of the end of each quarter, means that the value of any investments shall be calculated as follows:

a) for securities:

(1) computed on the basis of the bid price last quoted by the Federal Reserve Bank of New York on the valuation date and printed in the Wall Street Journal or the New York Times; or

(2) a valuation performed by a nationally recognized and accepted pricing service whose valuation method consists of the composite average of various bid price quotes on the valuation date; or

(3) the lower of two dealer bids on the valuation date. The dealer or their parent holding companies must be rated at least investment grade by S&P and Moody's and must be market makers in the securities being valued.

b) as to certificates of deposit and banker's acceptances: the face amount thereof, plus accrued interest.

(ix) Repurchase agreements with (a) any domestic bank, or domestic branch of a foreign bank, the long term debt which is rated at least "A" by S&P and "A2" by Moody's; or (b) any broker-dealer with "retail customers" or a related affiliate thereof which broker dealer has, or the parent company (which guarantees the provider) of which has, long term debt rated at least "A" by S&P and "A2" by Moody's, which broker-dealer falls under the jurisdiction of the Securities Investors Protection Corporation; or (c) any other entity rated at least "A" by S&P and "A2" by Moody's and acceptable to Radian, provided that:

a) the repurchase agreement is collateralized with the obligations described in paragraphs (i) or (ii) above; or with obligations described in paragraph (iii) (a) and (b) above.

b) the trustee will value the collateral securities at least weekly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within (2) business days.

c) the market value of the collateral must be maintained at: 104% of the total principal of the repurchase agreement for obligations described in paragraphs (i) and (ii); 105% of the total principal of the repurchase agreement for obligations described in paragraph (iii) (a) and (b) above.

d) the trustee or a third party acting solely as agent therefore or for the issuer (“the “Holder of the Collateral”) has possession of the collateral or the collateral has been transferred to the Holder of the Collateral in accordance with applicable state and federal laws (other than by means of entries on the transferor’s books).

e) the repurchase agreement shall state and an opinion of counsel shall be rendered at the time such collateral is delivered that the Holder of the Collateral has a perfected first priority security interest in the collateral, and substituted collateral and all proceeds thereof.

f) the repurchase agreement shall provide that if during its term the provider’s rating by either Moody’s or S&P is withdrawn or suspended or falls below “A-“ by S&P or “A3” by Moody’s, as appropriate, the provider must, at the direction of the issuer or the trustee (who shall give such direction if so directed by Radian), within 10 days of receipt of such direction, repurchase all collateral and terminate the agreement, with no penalty or premium to the issuer or trustee.

(x) Investment agreements with (a) a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long term debt of which, or, in the case of a guaranteed corporation the long term debt is rated at least "AA" by S&P and "Aa2" by Moody's; or (b) a monoline municipal bond insurance company or a subsidiary thereof whose claims paying ability is rated at least "AA" by S&P and "Aa2" by Moody's; provided, that in all cases, by the terms of the investment agreement:

a) interest payments are to be made to the Trustee at least one business day prior to debt service payment dates on the Bonds and in such amounts as are necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;

b) the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice (which notice may be amended or withdrawn at any time prior to the specified withdrawal date); provided that the Issuer or the Trustee give notice in accordance with the terms of the investment agreement so as to receive funds thereunder with no penalty or premium paid;

c) the investment agreement shall state that it is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof;

d) a fixed guaranteed rate of interest is to be paid on invested funds and all future deposits, if any, required to be made to restore the amount of such funds to the level specified hereunder;

e) the term of the investment agreement does not exceed seven years or such longer term as approved by Radian. A Radian approved investment agreement for the Debt Service Reserve Fund may extend until the maturity for the Bonds;

f) the Issuer or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Issuer and Radian) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, Radian;

g) the investment agreement shall provide that if during its term:

(1) the provider's rating by either S&P or Moody's falls below 'AA-' or 'Aa3' respectively, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if, but only if, so

directed by Radian), within 10 days of receipt of such direction, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Issuer, the Trustee or a third party acting solely as agent therefor (the "Holder of the Collateral") Permitted Collateral which are free and clear of any third-party liens or claims at the Collateral Levels set forth below; or (ii) repay the principal of and accrued but unpaid interest on the investment (the choice of (i) or (ii) above shall be that of the Issuer or Trustee, as appropriate), and

(2) the provider's rating by either Moody's or S&P is withdrawn or suspended or falls below "A-" or "A3" by S&P or Moody's, as appropriate, the provider must, at the direction of the Issuer or the Trustee (who shall give such direction if, but only if, so directed by Radian), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment in either case with no penalty or premium to the Issuer or Trustee;

h) The investment agreement shall state and an opinion of counsel shall be rendered that the trustee has a perfected first priority security interest in the Permitted Collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, this means the trustee is in possession); and

i) the investment agreement must provide that if during its term

(1) the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Issuer or the Trustee (who shall give such direction if so directed by Radian), be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate;

(2) the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. ("event of insolvency"), the provider's obligations shall automatically be accelerated and amounts invested and accrued but unpaid interest thereon shall be repaid to the Issuer or Trustee, as appropriate;

(3) the provider fails to perform any of its obligations under the Investment Agreement (other than obligations related to payment or rating) and such breach continues for ten (10) Business Days or more after written notice thereof is given by the Trustee to the provider, it shall be an Event of Default; or

(4) a representation or warranty made by the provider proves to have been incorrect or misleading in any material respect when made, it shall be an Event of Default

Permitted Collateral for Investment Agreements ("Permitted Collateral"):

A. U.S. direct Treasury obligations,

B. Senior debt and/or mortgage backed obligations of GNMA, FNMA or FHLMC and other government sponsored agencies backed by the full faith and credit of the U.S. government and approved by Radian.

C. Collateral levels must be 104% of the total principal deposited under the investment agreement for U.S. direct Treasury obligations, GNMA obligations and full faith and credit U.S. government obligations and 105% of the total principal deposited under the investment agreement for FNMA and FHLMC.

D. The collateral must be held by a third party, segregated and marked to market at least weekly.

(xi) Forward delivery agreements approved in writing by Radian (supported by appropriate opinions of counsel).

(xii) Other forms of investments approved in writing by Radian.

“*Rate Determination Date*” means the date on which the interest rate(s) with respect to some or all of the Bonds shall be determined, which, (i) in the case of the initial conversion to the R-FLOATs Mode (or from one Interest Period to another Interest Period within the R-FLOATs Mode), shall be, initially upon the conversion to such Mode or such Interest Period, no later than the Business Day prior to the Mode Change Date, and thereafter, in the case of Bonds with a weekly R-FLOATs Rate, shall be each Wednesday or, if a Wednesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, then the Business Day immediately preceding such Wednesday and, in the case of Bonds with a monthly R-FLOATs Rate, shall be the last Business Day of each month and, in the case of R-FLOATs in a Special R-FLOATs Rate Period the first day of such Special R-FLOATs Rate Period; (ii) in the case of the Unit Pricing Mode, shall be the first day of each Interest Period; (iii) in the case of the Daily Mode, shall be each Business Day commencing with the first day such Bonds become subject to the Daily Mode; (iv) in the case of conversion to the Weekly Mode, shall be, initially upon the conversion to such Mode, no later than the Business Day immediately prior to the Mode Change Date, and thereafter, shall be each Wednesday or, if Wednesday is not a Business Day, the next succeeding day or, if such day is not a Business Day, then the Business Day immediately preceding such Wednesday; (v) in the case of the Term Rate Mode, shall be a Business Day no earlier than 30 Business Days and no later than the Business Day immediately preceding the first day of each Interest Period, as selected by the Remarketing Agent; (vi) in the case of the Indexed Mode, the Stepped Coupon Mode and the Fixed Rate Mode, shall be a date determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date; and (vii) in the case of Bonds in the Auction Mode, shall be the Auction Date.

“*Rating Agencies*” means Moody’s, Fitch or S&P, and their respective successors and assigns.

“*Rebate Amount*” means the excess of the future value, as of a computation date, of all receipts on nonpurpose investments (as defined in Section 1.148-1(b) of the Income Tax Regulations) over the future value, as of that date, of all payments on nonpurpose investments, all as provided by regulations under the Code implementing Section 148 thereof.

“*Rebate Fund*” means the fund by that name established as summarized under the section of the Bond Indenture summary relating to the Rebate Fund under the caption “Funds.”

“*Redemption Fund*” means the fund by that name created under the Bond Indenture.

“*Redemption Price*” means, with respect to any Bond (or portion thereof), the price to be paid upon redemption as set forth in the Bond Indenture.

“*Refunded Bonds*” means the Series 1998 Certificates and the Series 2000 Bonds.

“*Related Bond Indenture*” means any indenture, bond resolution or other comparable instrument pursuant to which a series of Related Bonds is issued.

“*Related Bond Issuer*” means the governmental issuer of any issue of Related Bonds.

“*Related Bond Trustee*” means the trustee and its successors and assigns in the trusts created under any Related Bond Indenture, and if there is no such trustee, shall mean the Related Bond Issuer.

“*Related Bonds*” means the revenue bonds or other obligations or evidences of indebtedness issued or incurred by any state, territory or possession of the United States or any municipal corporation or political subdivision formed under the laws thereof or any constituted authority or agency or instrumentality of any of the foregoing empowered to issue or incur obligations on behalf thereof (“governmental issuer”), the proceeds of which are loaned or otherwise made available to:

(a) any Obligated Group Member in consideration of the execution, authentication and delivery of an Obligation to or for the order of such governmental issuer, or

(b) any Person other than an Obligated Group Member in consideration of issuance to such governmental issuer

(1) by such Person of any indebtedness or other obligation of such Person,
and

(2) by any Obligated Group Member of an Obligation issued under the Master Indenture in respect of such indebtedness or other obligation.

“*Remarketing Agent*” means any remarketing agent appointed by the Corporation in accordance with the terms of the Bond Indenture and not objected to by the Authority, the Bond Insurer or the Liquidity Facility Provider and at the time serving as such under the Remarketing Agreement.

“*Remarketing Agreement*” means any remarketing agreement between the Corporation and a Remarketing Agent, as such agreement may from time to time be amended and supplemented, to remarket the Bonds delivered or deemed to be delivered for purchase by the Holders thereof.

“*Revenue Fund*” means the fund by that name created under the Bond Indenture.

“*Series 1998 Certificates*” means the ABAG Finance Authority for Nonprofit Corporations Revenue Certificates of Participation (Eskaton Gold River Lodge), Series 1998, which were originally executed and delivered in the aggregate principal amount of \$12,710,000, and constitute a portion of the Refunded Bonds.

“*Series 2000 Bonds*” means the California Statewide Communities Development Authority Revenue Bonds (Eskaton Village – Grass Valley), Series 2000, which were originally issued in the aggregate principal amount of \$19,750,000 and constitute a portion of the Refunded Bonds.

“*Short-Term Indebtedness*” means all Indebtedness for any of the following:

(a) Payments of principal and interest with respect to money borrowed for an original term, or renewable at the option of the borrower for a period from the date originally incurred, of one year or less or which pursuant to the terms of a revolving credit or similar agreement or otherwise is renewable or extendable at the option of the borrower to a date or for a period or periods from the date originally incurred of more than one year if, by the terms of such agreement, no indebtedness is permitted to be outstanding thereunder for a period of at least 30 consecutive days during each period of 12 consecutive months beginning with the effective date of such revolving credit or other similar agreement:
and

(b) Payments under leases which are capitalized in accordance with generally accepted accounting principles having an original term, or renewable at the option of the lessee for a period from the date originally incurred, of one year or less.

“*Sixth Supplemental Master Indenture*” means the Sixth Supplemental Master Indenture dated as of December 1, 2005 between the Corporation and the other Obligated Group Members, and The Bank of New York Trust Company, N.A., as Master Trustee pursuant to which Obligation No. 7 is issued.

“*State*” means the State of California.

“*Submitted Bid*” has the meaning set forth in Exhibit C to the Bond Indenture.

“*Submitted Holder Order*” has the meaning set forth in Exhibit C to the Bond Indenture.

“*Substitute Liquidity Facility*” means a Liquidity Facility after the initial Liquidity Facility, furnished to the Bond Trustee pursuant to the terms of the Loan Agreement.

“*Substitute Liquidity Facility Date*” means the date of a Substitute Liquidity Facility furnished to the Bond Trustee by the Corporation pursuant to the terms of the Loan Agreement.

“*Sufficient Clearing Bids*” means, with respect to a Series, an Auction for which the aggregate principal amount of the Auction Rate Securities of such Series that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the aggregate principal amount of the Auction Rate Securities of such Series that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

“*Supplemental Master Indenture*” means an indenture supplemental to, and authorized and executed pursuant to the terms of, the Master Indenture for the purpose, among others, of creating a particular Obligation or Obligations issued under the Master Indenture.

“*Tax Certificate*” means either (a) the Certificate as to Tax, Arbitrage, and Other Matters signed by the Corporation and Obligated Group Members concurrently with the issuance of the Bonds, or (b) the Certificate as to Tax, Arbitrage, and Other Matters signed by the Authority concurrently with the issuance of the Bonds, as determined by the context.

“*Tax-Exempt Organization*” means any governmental unit, or a Person organized under the laws of the United States of America or any state thereof which is (i) an organization described in Section 501(c)(3) of the Code or is treated as an organization described in Section 501(c)(3) of the Code and is not a private foundation under Section 509(a) of the Code, and (ii) exempt from federal income taxes under Section 501(a) of the Code, or corresponding provisions of federal income tax laws from time to time in effect, except for income from an unrelated trade or business as defined in Section 513(a) of the Code.

“*Tender Agent*” means any tender agent appointed in accordance with the terms of the Bond Indenture. Initially, the Bond Trustee will act as Tender Agent.

“*Termination Date*” means the date specified in a notice of termination given by a Liquidity Facility Provider to the Bond Trustee specifying the date on which such Liquidity Facility Provider will no longer be obligated to purchase Bonds (or otherwise advance funds for the purchase of tendered Bonds) pursuant to a Liquidity Facility which date must be at least ten (10) days after the date of receipt of such notice by the Bond Trustee.

“Unrestricted Liquid Funds” means, as of any date, the aggregate of the unrestricted cash and unrestricted marketable securities (valued at fair market value) of the Obligated Group as of such date. Unrestricted Liquid Funds shall include board-designated funds but shall not under any circumstances include (i) any funds held by a lender or trustee with respect to any Indebtedness (including any debt service reserve fund, any debt service or bond fund or any construction or project fund), (ii) any funds held by a self-insurance plan trustee, (iii) any funds held by a trustee or other custodian for any pension plan or other employee benefit plan, or (iv) donor-restricted assets unavailable for operating expenses and debt service.

“Unrestricted Net Assets” means, unless the context provides otherwise, the unrestricted net assets as shown on the Financial Statements of the Obligated Group, determined in accordance with generally accepted accounting principles.

“Variable Rate Indebtedness” means any portion of Indebtedness the interest rate on which may vary or adjust pursuant to a predetermined formula or otherwise.

“Weekly Mode” means the Mode during any Bonds bear interest at the Weekly Rate.

“Weekly Rate” means an interest rate that is determined on a weekly basis with respect to any Bonds in the Weekly Mode pursuant to the terms of the Bond Indenture.

“Winning Bid Rate” means the lowest rate in any Submitted Bid for the Bonds which, if selected by the Auction Agent as the Auction Rate, would cause the aggregate principal amount of Auction Rate Securities that are the subject of Submitted Bids specifying rates not greater than such rate to be at least equal to the aggregate principal amount of Available Bonds.

“Written Request” means with reference to the Authority, a request in writing signed by an Authorized Representative of the Authority and with reference to any Member of the Obligated Group means a request in writing signed by the President or a Vice President of such Member or the Corporation, or any other officers designated by the Authority or such Member or the Corporation, as the case may be.

SUMMARY OF CERTAIN PROVISIONS OF THE MASTER INDENTURE

The Master Indenture contains various covenants, security provisions, terms and conditions, certain of which are summarized below. Reference is made to the Master Indenture for a full and complete statement of its terms.

The Sixth Supplemental Master Indenture contains covenants and amendments made solely for the benefit of the Bond Insurer. Consequently, this summary of certain provisions of the Master Indenture should be read in conjunction with the summaries of such covenants and amendments contained in Sixth Supplemental Master Indenture.

The terms of the Sixth Supplemental Master Indenture may only be supplemented or amended upon the prior written consent of the Bond Insurer. The Bond Insurer shall have the right to consent to amendments to the Bond Indenture and the Loan Agreement without the consent of the owners of the Bonds as and to the extent set forth in the Bond Indenture. Any action requiring consent of the Bondholders shall be deemed to also require the prior written consent of the Bond Insurer. So long as the Bond Insurance Policy is in effect and the Bond Insurer has not lost its rights pursuant to the Bond Indenture, the Bond Insurer shall have the right to direct the Bond Trustee, as holder of Obligation No. 7, to take any action or give any consent, approval or notice under the provisions of the Master Indenture.

The Master Indenture authorizes the issuance of Obligations by the Obligated Group which will be secured by the Gross Revenues of each Obligated Group Member. Each Obligation issued under the Master Indenture is a joint and several obligation of each Obligated Group Member.

AUTHORIZATION FOR ISSUANCE OF OBLIGATIONS IN SERIES

From time to time subject to the terms, limitations and conditions established in the Master Indenture, the Obligated Group Representative may authorize for itself or on behalf of any other Obligated Group Member the issuance of an Obligation or a series of Obligations by entering into a Supplemental Master Indenture. The Obligation or the Obligations of any such series may be issued and delivered to the Master Trustee for authentication upon compliance with the provisions of the Master Indenture and of any Supplemental Master Indenture.

Each Supplemental Master Indenture authorizing the issuance of an Obligation or a series of Obligations shall specify and determine the principal amount of such Obligations, the purposes for which such Obligations are being issued, the Obligated Group Representative or other Obligated Group Member or Members which are Primary Obligors of such series of Obligations, the form, title, designation, and the manner of numbering or denominations, if applicable, of such Obligations, the date or dates of maturity of such Obligations, the date of issuance of such Obligations, the rate or rates of interest (or method of determining the rate or rates of interest) borne by such series of Obligations, and any other provisions deemed advisable or necessary by the Corporation.

PAYMENT OF OBLIGATIONS BY OBLIGATED GROUP

Each Obligated Group Member jointly and severally covenants to promptly pay or cause to be paid the principal of, premium, if any, and interest on each Obligation issued under the Master Indenture at the place, on the dates and in the manner provided in the Master Indenture, in the Supplemental Master Indenture or Indentures relating to such Obligation or Obligations, and in said Obligations according to the terms thereof whether at maturity, upon proceedings for redemption, by acceleration or otherwise.

GROSS REVENUE FUND; RESTRICTIONS ON FURTHER ENCUMBERING GROSS REVENUES

Each Obligated Group Member, respectively, agrees that so long as any of the Obligations remain Outstanding, all of the Gross Revenues of the Obligated Group shall be deposited as soon as practicable upon receipt in a fund designated as the "Gross Revenue Fund" which the Obligated Group Members shall establish and maintain, subject to the provisions below, 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)"). No moneys other than Gross Revenues shall be deposited in the Gross Revenue Fund. 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 Obligated Group Member, respectively, to the extent now or hereafter permitted by law, pledges and 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 prompt payment of the principal of, redemption premium, if any, and the interest on the Obligations issued under the Master Indenture and the performance by each Obligated Group Member of its other obligations thereunder. Prior to the delivery of the first series of Obligations, the Obligated Group Representative shall deliver to the Master Trustee a duly executed financing statement evidencing the security interest of the Master Trustee in form required by the California Uniform Commercial Code with copies sufficient in number for filing with the office of the Secretary of State of the State of California in Sacramento, California and shall execute and cause to be sent to each Depository Bank a notice of the security interest granted under the Master Indenture and shall execute and deliver such other documents (including, but not limited to, continuation statements) 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.

The foregoing pledge, and agreement to pay, shall not inhibit, and the Master Indenture allows, so long as no Obligated Group Member is in default in the payment of any Obligation, the use of any funds on deposit in the Gross Revenue Fund for any proper corporate purpose of any Obligated Group Member.

Each Obligated Group Member covenants that it will file such financing statements or amendments to or terminations of existing financing statements which shall, in the opinion of counsel, be necessary to comply with applicable law or as required due to changes in the Obligated Group, including without limitation: (1) any Person becoming an Obligated Group Member pursuant to the Master Indenture; or (2) any Obligated Group Member ceasing to be an Obligated Group Member pursuant to the Master Indenture.

Each Obligated Group Member covenants that it will not pledge or grant a security interest in (except as provided in the first paragraph under this heading and as may be otherwise provided in the Master Indenture) any of its Gross Revenues.

In the event that any installment of principal of or interest on any Obligation issued under the Master Indenture or other amount as is so required to be paid shall not be paid when and as the same becomes due and payable, then the Master Trustee shall give notice thereof to the Obligated Group Representative and, unless such delinquent installment is paid, or provision for payment is duly made, in a manner satisfactory to the Master Trustee, within 10 days after receipt of such notice, the Obligated Group Representative shall cause the Depository Bank(s) to transfer the Gross Revenue Fund to the name and credit of the Master Trustee. All Gross Revenues of the Obligated Group shall continue to be deposited in the Gross Revenue Fund as provided in the first paragraph under this heading until the amounts on deposit in said fund are sufficient to pay in full, or have been used to pay in full, all such delinquent installments and all other then existing Events of Default known to the Master Trustee, whereupon the Gross Revenue Fund shall be returned promptly to the appropriate Obligated Group Members. During any period that the Gross Revenue Fund is held by the Master Trustee, the Master Trustee shall use and withdraw amounts in said fund from time to time to make such delinquent installments as such installments become due (whether by maturity, redemption, acceleration or otherwise), and, if such amounts are not sufficient to pay all such installments due on any date, then to the payment of debt service on such 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. During any period that the Gross Revenue Fund is held by the Master Trustee, the Obligated Group Members shall not be entitled to use or withdraw any of the Gross Revenues of the Obligated Group unless the Master Trustee at its sole discretion directs the payment of current or past due operating expenses of the Obligated Group Members. Each Obligated Group Member agrees to execute and deliver all instruments as may be required to implement this provision. Each Obligated Group Member further agrees that a failure to comply with the terms of this provision 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 Obligated Group Members as provided in this section.

RATES AND CHARGES

Commencing the Fiscal Year beginning January 1, 1999, each Obligated Group Member covenants to set rates and charges for its facilities and services so that in any Fiscal Year the Debt Service Coverage Ratio, calculated at the end of such Fiscal Year, is not less than 1.20.

If at any time the ratio required by the previous paragraph is not met, the Obligated Group Representative shall promptly retain a Consultant to make recommendations to increase such ratio for subsequent Fiscal Years to the levels required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Obligated Group Member, respectively, agrees that to the extent permitted by law it will follow the recommendations of the Consultant. So long as the Obligated Group shall retain a Consultant and follow such Consultant's recommendations, this paragraph shall be deemed to have been complied with for any such Fiscal Year, even if such ratio is below the previously referred to level for such Fiscal Year, provided that such ratio is not less than 1.0.

If in any Fiscal Year a report of a Consultant is delivered to the Master Trustee stating that Industry Restrictions or changes in public or private third-party reimbursement programs have been imposed which make it impossible for the coverage requirement in the first paragraph under this heading to be met, then such coverage requirement shall be reduced to the greater of 1.00 or the highest ratio which the Consultant determines may be achieved in light of such Industry Restrictions.

Notwithstanding the foregoing, an Obligated Group Member may permit the rendering of service at, or the use of, its facilities without charge or at reduced charges, at the discretion of the Governing Body of such Obligated Group Member, to the extent necessary for maintaining its tax-exempt status and its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or any state in which it conducts its business or any instrumentality thereof, or in compliance with any recommendation for free services that may be made by a Consultant.

LIMITATIONS ON LIENS

Each Obligated Group Member, respectively, agrees that it will not create, assume or permit the existence of any Lien upon any of its Facilities now owned or hereafter acquired by it, nor any Financed Property unless all Obligations issued under the Master Indenture shall be secured prior to or equally and ratably with any indebtedness or other obligation secured by such Lien, nor upon its Gross Revenues unless all Obligations issued under the Master Indenture are secured prior to any indebtedness or other obligations secured by such Lien. Each Obligated Group Member further agrees that if such a Lien is created or assumed by an Obligated Group Member, it will make effective a provision whereby all Obligations issued under the Master Indenture will be secured prior to or equally with any or other Obligations secured by such Lien as required thereunder; provided, however, that notwithstanding the foregoing provisions, and without securing Obligations issued thereunder, Obligated Group Members may create, assume or suffer to exist Permitted Liens as defined in the Master Indenture.

LIMITATIONS ON ADDITIONAL INDEBTEDNESS

Each Obligated Group Member, respectively, agrees that it will not incur any Additional Indebtedness (whether through the issuance of Obligations or otherwise) other than Additional Indebtedness described below, which Additional Indebtedness may be incurred only in the manner and pursuant to the terms as follows:

(a) Long-Term Indebtedness, if prior to incurrence of any Long-Term Indebtedness, one of the following three conditions is met (1) there is delivered to the Master Trustee an Officer's Certificate, accompanied by the Certificate of an Accountant confirming the contents thereof, certifying that the Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness then to be incurred, for each of the two most recent Fiscal Years for which audited Financial Statements are available and that the average Debt Service Coverage Ratio for such years is not less than 1.20; or (2) there is delivered to the Master Trustee an Officer's Certificate, accompanied by the Certificate of an Accountant confirming the contents thereof, certifying the Debt

Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness then to be incurred, for the most recent Fiscal Year for which audited Financial Statements are available and that such Debt Service Coverage Ratio is not less than 1.30; or (3) (A) there is delivered to the Master Trustee an Officer's Certificate certifying the ratio determined by dividing the Income Available for Debt Service by the Debt Service Requirement, taking into account all Outstanding Long-Term Indebtedness, but not the Long-Term Indebtedness then to be incurred, for the most recent Fiscal Year for which audited Financial Statements are available and that such ratio is not less than 1.20; and (B) there shall be filed with the Master Trustee the report of a Consultant to the effect that the forecast Debt Service Coverage Ratio, taking the proposed Long-Term Indebtedness into account (or an Officer's Certificate if such forecast Debt Service Coverage Ratio is not less than 1.35), for (i) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each of the first two full Fiscal Years succeeding the later of the date on which such capital improvements are expected to be in operation and the date on which Break Even Occupancy are expected to have been sustained for a period of 3 months, but in no event later than the date through which interest on such Long-Term Indebtedness is funded; or (ii) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the first two full Fiscal Years succeeding the date on which the Indebtedness is incurred, for each such period is not less than 1.30, as shown by forecast statements of revenue and expense for each such period, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based, provided that such Debt Service Coverage requirements shall be reduced, in each case, to 1.00 if the Master Trustee receives a Consultant's report to the effect that Industry Restrictions prevent the Obligated Group from meeting such requirements;

(b) Completion Indebtedness, not to exceed 10% of the principal amount of the Indebtedness originally incurred to finance the project for which such Completion Indebtedness is required;

(c) Long-Term Indebtedness for the purpose of refunding (including crossover refunding) 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 following such refunding does not exceed 110% of the Maximum Annual Debt Service prior to such refunding;

(d) Short-Term Indebtedness, provided that: (i) immediately after the incurrence of such Indebtedness the Outstanding principal amount of all such Indebtedness does not exceed 15% of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available and (ii) for a period of 30 consecutive calendar days in each such Fiscal Year, the amount of Short-Term Indebtedness Outstanding must be reduced to an amount not greater than 3% of the maximum amount of Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available;

(e) Non-Recourse Indebtedness;

(f) Balloon Indebtedness may be incurred provided that: (1) at the time such Balloon Indebtedness is to be incurred the conditions described in subsection (a)(1), (2) or (3) under this heading are met with respect to such Balloon Indebtedness, assuming any such Balloon Indebtedness for which a binding take-out commitment is in place at the time of incurrence to pay off the Balloon Indebtedness when 25% or more comes due or the aggregate principal amount of which does not exceed 15% of the Adjusted Annual Operating Revenues, to be Long-Term Indebtedness, as if it were being repaid in substantially equal annual installments of principal and interest over a term of the lesser of 25 years or the economic life of the asset being financed and bearing interest at an interest rate equal to the rate which the Obligated Group could reasonably be expected to borrow at for such term by issuing an Obligation. There

shall be delivered to the Master Trustee, together with any Officer's Certificate or report of a Consultant required by subsection (b), a letter of a Consultant or a banking or investment banking institution knowledgeable in matters of retirement housing finance, confirming that the interest rate assumption set forth in such Certificate complies with the requirements of this subparagraph; or (2) (i) the Obligated Group Member incurring such Balloon Indebtedness establishes in an Officer's Certificate filed with the Trustee an amortization schedule for such Balloon Indebtedness, which amortization schedule shall provide for substantially equal payments of principal and interest for each Fiscal Year over a period which does not extend beyond the maturity of such Balloon Indebtedness that are not less than the amounts required to make any actual payments required to be made in such Fiscal Year by the terms of such Balloon Indebtedness; (ii) the Obligated Group Member incurring such Balloon Indebtedness agrees in such Officer's Certificate to cause to be deposited during each Fiscal Year with a bank or trust company (pursuant to an agreement between such Obligated Group Member and such bank or trust company) the amount of principal shown on such amortization schedule net of any amount of principal actually paid on such Balloon Indebtedness during such Fiscal Year (other than from amounts on deposit with such bank or trust company) which deposit shall be made prior to any such required actual payment during such Fiscal Year if the amounts so on deposit are intended to be the source of such actual payments; (iii) such Obligated Group Member makes all payments of principal and interest in such amounts and by such dates as shown on such amortization schedule and (iv) the conditions described in paragraph (a) above are met when it is assumed that such Balloon Indebtedness is actually payable in accordance with such amortization schedule; or (3) (i) such Balloon Indebtedness is used to acquire Facilities; (ii) the principal amount of such Balloon Indebtedness does not exceed 20% of the Adjusted Annual Operating Revenues, and (iii) the Obligated Group Member incurring such Balloon Indebtedness files with the Trustee a report of a Consultant to the effect that, in the opinion of the Consultant, such Balloon Indebtedness can be replaced, at or prior to its maturity, with Long-Term Indebtedness having a term of not less than 25 years and other terms and conditions which are commercially reasonable; and (iv) the conditions of paragraph (a) above are met when it is assumed that such Balloon Indebtedness will be paid in equal installments of principal and interest over a 25 year term.

(g) Variable Rate Indebtedness incurred pursuant to any other paragraph under this heading, provided that the interest rate on such Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to 110% of the average interest rate (calculated in the manner in which the rate of interest is expressed to be calculated) that was or would have been in effect for the 12-month period immediately preceding the date on which such calculation is made; provided, however, that if such average annual rate of interest cannot be calculated for such entire 12-month period but can be calculated for a shorter period, then the assumed interest rates shall be 110% of the average annual rate of interest that was or would have been in effect for such shorter period; and provided further, that if such average annual rate of interest cannot be calculated for any preceding period of time, then the assumed interest rates shall be 110% of the initial rate of interest that is actually applicable to such Indebtedness upon incurrence thereof;

(h) Put Debt and Extendable Debt may be incurred provided that at the time such Put Debt or Extendable Debt is to be incurred the conditions described in paragraph (a) above are met with respect to such Put Debt or Extendable Debt, assuming the term and amortization of such Put Debt or Extendable Debt are as set forth therein, notwithstanding any put options contained therein;

(i) Reimbursement or other repayment obligations arising under reimbursement or similar agreements with banks or other financial institutions relating to letters or lines of credit or similar credit facilities used to secure Indebtedness;

(j) Liabilities under capitalized lease agreements for the lease of, or indebtedness for money borrowed or liabilities under instruments evidencing deferred payment arrangements for the

purchase of, equipment, tangible personal property or real property provided that the aggregate amount incurred by the Obligated Group under this subparagraph shall not exceed at the time of incurrence 15% of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available, as shown on or derived from such audited Financial Statements;

(k) Unlimited contributions to self-insurance or shared or pooled risk insurance programs;

(l) Other Indebtedness (which may be secured by Obligations issued under the Master Indenture), the principal amount of which, when added to the principal amount of all other Long-Term Indebtedness incurred under this paragraph and then outstanding, does not exceed 10% of Adjusted Annual Operating Revenues; and

(m) the aggregate of the Outstanding Indebtedness incurred under subsections (d), (f)(1), (j) or (l) above shall not exceed, at the time of incurrence of any such Indebtedness, 25% of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available.

CONSOLIDATION, MERGER, SALE OR CONVEYANCE

Each Obligated Group Member, respectively, covenants that it will not (i) merge or consolidate with any other corporation which is not an Obligated Group Member, or (ii) sell or convey all or substantially all of its assets to any Person which is not an Obligated Group Member, unless:

(a) Such Obligated Group Member will be the continuing corporation, or if the successor corporation is not such an Obligated Group Member such successor corporation shall be a corporation organized and existing under the laws of the United States of America or a state thereof;

(b) The Master Trustee shall have received the following Supplemental Master Indenture, Consultant's or Accountant's report or Officer's Certificate, as appropriate, and counsel opinions: (1) if the successor corporation is not such Obligated Group Member, a Supplemental Master Indenture, wherein such successor corporation shall agree that, effective upon or as soon as possible thereafter such consolidation, merger, sale or conveyance, it shall: (A) become an Obligated Group Member under the Master Indenture and thereby subject to compliance with all provisions of the Master Indenture pertaining to an Obligated Group Member, including the performance and observance of all covenants and obligations of an Obligated Group Member under the Master Indenture; and (B) assume the due and punctual payment of the principal of, premium, if any, and interest on all Obligations issued under the Master Indenture according to their tenor; and (2) a report of a Consultant or Accountant, or an Officer's Certificate, as appropriate, to the effect that the conditions described in subparagraph (a) of the section entitled "Limitations on Additional Indebtedness" would be met for the incurrence of one dollar of Long-Term Indebtedness; and (3) an Officer's Certificate to the effect that immediately following such transaction the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed or observed by it under the Master Indenture; and (4) an opinion of counsel to the effect that any such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions under this heading and that it is permissible 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, to the effect that each instrument executed and delivered to the Master Trustee in accordance with the Master Indenture has been duly authorized, executed and delivered by the successor corporation and constitutes a legal, valid and binding obligation enforceable in accordance with its terms, and to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance will not subject any Obligations to the provisions of the Securities Act of 1933, as amended (or that such

Obligations have been so registered if registration is required); and (5) if all amounts due or to become due on any Related Bond which bears interest which is not includable in gross income of the Holder under the Code have not been fully paid to the Holder thereof, an opinion of bond counsel to the effect that under then existing law the consummation of such merger, consolidation, sale or conveyance, whether or not contemplated on any date of the delivery of any such Related Bond, would not adversely affect the exemption from federal income taxation of interest payable on any such Related Bond; and

(c) 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 the Obligated Group Member, with the same effect as if it had been named in the Master Indenture as an Obligated Group Member or had become an Obligated Group Member under the Master Indenture, as the case may be. Such successor corporation thereupon may cause to be signed, and may issue in its own name Obligations issuable under the Master Indenture; and upon the order of such successor corporation and subject to all the terms, conditions and limitations in the Master Indenture prescribed, the Master Trustee shall authenticate and shall deliver Obligations that such successor corporation shall have caused to be signed and delivered to the Master Trustee. All Outstanding Obligations so issued under the Master Indenture shall in all respects have the same legal rank and benefit under the Master Indenture as Outstanding 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 an Obligated Group Member without any such consolidation, merger, sale or conveyance having occurred; and

(d) The Obligated Group Representative agrees to notify the Authority in writing within 30 business days following any merger, acquisition or affiliation of each Obligated Group Member and an entity which has entered into a loan, lease or similar agreement with the Authority.

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.

SALE, LEASE OR OTHER DISPOSITION OF ASSETS

Each Obligated Group Member, respectively, agrees that it will not in any Fiscal Year sell, lease or otherwise dispose of any Property, Plant and Equipment, other than as provided in the provisions under this heading, the Book Value of which would cause the aggregate Book Value of Property so transferred by Obligated Group Members in such year to exceed either, at the option of the Obligated Group Representative, (1) 5% of the Book Value of the Property of the Obligated Group or (2) 5% of the Appraised Value of the Property of the Obligated Group (excluding in either case any asset restricted as to use for a particular purpose inconsistent with its use for the payment of principal of, redemption premium and interest on Indebtedness or the payment of operating expenses), or which would cause such Obligated Group Member to be in default in the performance or observance of any covenant or condition to be performed or observed by it under the Master Indenture, except for transfers of assets described below:

- (a) In the ordinary course of business;
- (b) In connection with a “sale and leaseback” transaction that would be treated as and constitute a true sale and leaseback under the Code;
- (c) To any Person not an Obligated Group Member if prior to the sale, lease or other disposition there is delivered to the Master Trustee an Officer’s Certificate stating that, in the judgment of the signer, such Property has become, 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, removal or other disposition thereof will not impair the operations of the Obligated Group;

(d) To another Obligated Group Member;

(e) To a Person which is not an Obligated Group Member if such Person shall become an Obligated Group Member under the Master Indenture or to a successor corporation pursuant to a merger or consolidation permitted by the Master Indenture, without limit;

(f) To a Person which is not an Obligated Group Member, provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that, following the transfer, (i) the Obligated Group Members could incur one additional dollar of Long-Term Indebtedness pursuant to Section 3.5(a) hereof, (ii) unless waived by the Bond Insurer, the Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available would not be less than 1.30 and would not be lower than 70% of the Debt Service Coverage Ratio without taking into account the transfer; and liquidity would be reduced to not less than 120 Days Cash on Hand;

(g) To any Person not an Obligated Group Member provided that such Property is transferred for fair market value or in return for other Property of equal or greater value and usefulness and the Master Trustee receives an Officer's Certificate of the Corporation certifying that such transfer was made for fair market value or in return for other Property of equal or greater value and usefulness; and

(h) In the form of withholdings from payments due, for services rendered, to any Obligated Group Member from a health care service plan or other third-party payor pursuant to a contractual arrangement between such Obligated Group Member and such payor which sets forth the terms and conditions of repayment by such payor of the withholdings.

DISPOSITION OF LIQUID ASSETS

Each Obligated Group Member, respectively, agrees that it will not in any Fiscal Year sell, transfer or otherwise dispose of any of its Liquid Assets, except as follows:

(a) to another Obligated Group Member; or

(b) in return for other Property of equal or greater fair market value; or

(c) if the value of the Liquid Assets disposed of, when added to the value of all other Liquid Assets disposed of pursuant to subparagraph (b) above in the then current Fiscal Year, is equal to or less than 3% of the value of all of the Liquid Assets of the Obligated Group as of the last day of the immediately preceding Fiscal Year; or

(d) if the Obligated Group has at least 90 Days Cash On Hand immediately following the disposition of such Liquid Assets; or

(e) As a loan to any Person, provided that the Master Trustee shall have received written confirmation from an Accountant that such loan may be properly treated in the Financial Statements of the applicable Obligated Group Members as a loan under generally accepted accounting principles and an Officer's Certificate certifying that (i) such loan has been evidenced in writing, (ii) such

loan bears interest at a reasonable interest rate, and (iii) there is a reasonable expectation that such loan will be repaid in accordance with its terms.

Notwithstanding the foregoing provisions under this heading, no Obligated Group Member shall sell or otherwise convey any of its accounts receivable to any Person (other than another Obligated Group Member).

DAYS CASH ON HAND

Each Obligated Group Member covenants to maintain Unrestricted Liquid Funds such that the Obligated Group will have at least 90 Days Cash On Hand on each Cash Test Date.

If on any Cash Test Date, the Obligated Group does not have the number of Days Cash On Hand required by the paragraph above, the Obligated Group Representative shall promptly (and in no event more than 135 days after such Cash Test Date) retain a Consultant to make recommendations to increase the amount of Days Cash on Hand for subsequent Cash Test Dates to the level required, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Obligated Group Member agrees, to the extent permitted by law, that it will follow the recommendations of the Consultant. So long as the Obligated Group shall retain a Consultant and shall follow the recommendations of the Consultant to the extent permitted by law, the provisions under this paragraph shall be deemed to have been complied with as of any such Cash Test Date even if the amount of Days Cash on Hand is below the required level, provided that the Obligated Group has at least 45 Days Cash on Hand as of such Cash Test Date.

FILING OF FINANCIAL STATEMENTS; CERTIFICATES OF NO DEFAULT; OTHER INFORMATION

Each Obligated Group Member, respectively, covenants that it will: (a) as soon as practicable, but in no event later than 120 days after the end of the Fiscal Year of each Obligated Group Member, cause the Obligated Group Representative to deliver to the Master Trustee, to each Holder holding Obligations with balances of \$1,000,000 or more who may have so requested in writing or in whose behalf the Master Trustee may have so requested to any Rating Agencies then providing a rating for Related Bonds, and to any Person as required by a continuing disclosure agreement entered into in connection with any Obligation under the Master Indenture, (i) a copy of the consolidated audited Financial Statements of Eskaton and its subsidiaries and (ii) a copy of the audited Financial Statements of any other Obligated Group Member, as of the end of such Fiscal Year accompanied by the opinion of an Accountant; (b) as soon as practicable but in no event later than 120 days after the end of each Fiscal Year, cause the Obligated Group Representative to file with the Master Trustee, and with each Holder who may have so requested or in whose behalf the Master Trustee may have so requested, an Officer's Certificate setting forth the Debt Service Coverage Ratio for the Obligated Group for such Fiscal Year and stating whether or not to the best knowledge of the signers any Obligated Group Member is in default in the performance of any covenant contained in the Master Indenture and, if so, specifying each such default of which the signers may have knowledge; (c) if an Event of Default shall have occurred and be continuing, (1) file with the Master Trustee such other financial statements and information concerning its operations and financial affairs (or of any consolidated or combined group of companies, including the Corporation and its consolidated or combined affiliates, including any other Obligated Group Member) as the Master Trustee, at the direction of the Holders of at least 25% in aggregate principal amount of the Obligations then Outstanding, may from time to time reasonably request, excluding specifically donor records, patient records, personnel records and medical staff records of each Obligated Group Member, privileged communications between each Obligated Group Member and counsel, litigation records and malpractice and claims records; and (2) provide access to its facilities for the purpose of inspection by the Master Trustee during regular business hours or at such other times as the Master Trustee may reasonably

request; (d) within 10 days after its receipt thereof, file with the Master Trustee a copy of each report which any provision of the Master Indenture required to be prepared by a Consultant; and (e) file in the appropriate offices such financing and continuation statements as may be required by the Uniform Commercial Code of the state or states in which the Obligated Group Members do business to perfect, to the extent permitted by law, the security interests granted pursuant to the Master Indenture.

GENERAL COVENANTS AS TO CORPORATE EXISTENCE, MAINTENANCE OF PROPERTY, ETC.

Each Obligated Group Member covenants in the Master Indenture:

(a) except as otherwise expressly provided in the Master Indenture, to preserve its corporate or other separate legal existence and all its rights and licenses to the extent necessary or desirable in the operation of its business and affairs and to be qualified to do business in each jurisdiction where its ownership of Property or the conduct of its business requires such qualifications; provided, however, that nothing contained in the Master Indenture shall be construed to obligate it to retain or preserve any of its rights or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business;

(b) at all times to cause its business to be carried on and conducted and its Property to be maintained, preserved and kept in good repair, working order and condition and all needed and proper repairs, renewals and replacements thereof to be made; provided, however, that nothing contained in this paragraph (b) shall be construed: (1) to prevent it from ceasing to operate any portion of its Property or entering into a “sale and leaseback” transaction that would constitute and be treated as a true sale and leaseback under the Code with respect to any of its Property, if in its judgment (evidenced, in the case of such a cessation other than in the ordinary course of business, by a determination by its Governing Body) it is advisable not to operate the same or to enter into such “sale and leaseback” arrangement, or if it intends to sell or otherwise dispose of the same and within a reasonable time endeavors to effect such sale or other disposition, or (2) to obligate it to retain, preserve, repair, renew or replace any Property, leases, rights, privileges or licenses no longer used or, in the judgment of its Governing Body, useful in the conduct of its business;

(c) to do all things reasonably necessary to conduct its affairs and carry on its business and operations in such manner as to comply with any and all applicable laws of the United States and the several states thereof and duly observe and conform to all valid orders, regulations or requirements of any governmental authority relative to the conduct of its business and the ownership of its Property; provided, nevertheless, that nothing contained in the Master Indenture shall require it to comply with, observe and conform to any such law, order, regulation or requirement of any governmental authority so long as the validity thereof or the applicability thereof to it shall be contested in good faith;

(d) promptly to pay all lawful taxes, governmental charges and assessments at any time levied or assessed upon or against it or its Property; provided, however, that it shall have the right to contest in good faith any such taxes, charges or assessments or the collection of any such sums and pending such contest may delay or defer payment thereof;

(e) promptly to pay or otherwise satisfy and discharge all of its obligations and Indebtedness and all demands and claims against it as and when the same become due and payable, other than any thereof (exclusive of the Obligations issued and Outstanding under the Master Indenture) whose validity, amount or collectibility is being contested in good faith, subject to the rights of the Obligated Group Member to assert setoffs;

(f) at all times to comply with all terms, covenants and provisions of any Liens at such time existing upon its Property or any part thereof or securing any of its Indebtedness, other than any thereof whose validity is being contested in good faith;

(g) to procure and maintain all necessary licenses and permits, when and as available and the status of its Facilities (other than those not currently having such status) as a provider of retirement housing and health care services eligible for reimbursement under the Medicare and Medi-Cal and comparable programs, including future governmental programs and other third-party payment programs which are a significant source of revenue, the appropriateness of which are determined by the Governing Body of the Obligated Group Representative; provided, however, that it need not comply with this paragraph if and to the extent that Governing Body of the Obligated Group Representative has determined in good faith, evidenced by a resolution of such Governing Body, that such compliance is not in its best interests and that lack of such compliance would not materially impair its ability to pay its Indebtedness when due; and

(h) so long as the Master Indenture shall remain in force and effect, in the case of each Primary Obligor which is a Tax-Exempt Organization at the time it becomes a Primary Obligor, so long as all amounts due or to become due on any Related Bond have not been fully paid to the Holder thereof, to take no action or suffer any action which would result in the alteration or loss of its status as a Tax-Exempt Organization, which, in the opinion of bond counsel, would result in the interest on any Related Bond becoming subject to federal income taxes.

INSURANCE REQUIRED

Each Obligated Group Member, respectively, agrees that it will maintain insurance, which may include one or more self-insurance programs, covering such risks and in such amounts as, in its judgment, are adequate to protect it and its properties and operations and as are, with respect to retirement housing and health care services activities and properties, customary for retirement housing and health care services corporations of similar size and character. Such insurance policies may include fire insurance, insurance coverage of boilers and other selected machinery items, general liability insurance and property damage coverage, comprehensive automobile liability insurance, workers' compensation coverage as required by the laws of the State, use and occupancy insurance covering loss of operating revenues by reason of the total or partial interruption of retirement housing and health care services provided by any Obligated Group Member, professional liability insurance protecting each Obligated Group Member against claims arising from any act or omission in the furnishing of retirement housing or health care services to any resident or patient, and fidelity bonds on officers and employees of any Obligated Group Member. The Obligated Group Representative that each insurance policy (except liability policies) shall name the Obligated Group, the Authority and Trustee as insured parties, beneficiaries or loss payees; provided, however, that payments of the proceeds of such insurance shall be made exclusively to the Corporation, if the amount of the proceeds in each instance is less than \$1,000,000. Each commercial insurance policy maintained by the Obligated Group pursuant to this paragraph shall be written by an insurance company rated in at least the "A" category by one of the Rating Agencies or by A.M. Best Company, Inc.

INSURANCE CONSULTANT

Each Obligated Group Member shall, not less frequently than every two years (every year in the case of self-insurance), retain an Insurance Consultant to make recommendations as to the amount and type of insurance which should be obtained in order to comply with the standard set forth in the previous heading. All policies of insurance and bonds required by the Master Indenture shall be in amounts and shall contain such provisions as comply with the recommendations of the Insurance Consultant; provided

that, notwithstanding any other provision of the Master Indenture, no Obligated Group Member shall be required to provide insurance coverage which, in the written opinion of the Insurance Consultant, is for risks not normally covered or is in excess of standard requirements, if any, for facilities similar in size, location and nature to the Facilities. If the Insurance Consultant makes recommendations for the increase of any of the coverage, the Obligated Group Representative shall increase such coverage in accordance with such recommendations, subject to a good faith determination of the Obligated Group Representative that such recommendations, in whole or in part, are in the best interests of the Obligated Group.

CASUALTY; CONDEMNATION; LOSS OF TITLE

If any of the Facilities are wholly or partially destroyed or damaged by fire or other casualty covered by insurance required under the Master Indenture, or if any of the Facilities shall be wholly or partially condemned, taken or injured by any Person, or if any part of any of the Facilities shall be lost because of failure of title, each Obligated Group Member covenants that it will promptly notify the Master Trustee of such event and will take all actions and will do all things which may be necessary to enable recovery to be made upon such policies of insurance (including title insurance) or on account of such taking, condemnation, conveyance, damage, injury or loss of title in order that moneys due on account of losses suffered may be collected and paid to the Master Trustee and applied as provided under the Master Indenture. Any adjustment of loss or damage and any settlement or payment therefor, which may be agreed upon by the Obligated Group Member and the appropriate insurer or condemnor or other Person, shall be evidenced to the Master Trustee by a Certificate signed by an Authorized Representative of such Obligated Group Member. The Master Trustee may rely conclusively upon such Certificate.

PROCEEDS OF HAZARD INSURANCE

Immediately after occurrence of loss or damage covered by insurance which is reasonably expected to exceed an amount equal to 10% of the insured value of the combined Property, Plant and Equipment, the applicable Obligated Group Member shall notify the architect and the Trustee thereof. The architect promptly shall determine and advise the Master Trustee and the Obligated Group Member, in writing, whether it is practicable to repair, reconstruct or replace such damaged or destroyed or condemned or lost property and, if so, the estimated time and funds required for such repair, reconstruction or replacement; provided that the advice of the architect shall not be required if the estimated cost of repair, reconstruction or replacement, as set forth in reasonable detail in a Certificate delivered to the Trustee, is less than 5% of insured value of the Property, Plant and Equipment at the applicable campus. The proceeds of insurance required by the Master Trust Indenture shall be applied as provided in the paragraphs below.

If the architect advises that such repair, reconstruction or replacement is practicable, and if, within 90 days from the receipt of the architect's report or the applicable Obligated Group Member delivers to the Master Trustee: (1) a written report of a Consultant or, if the estimated cost of repair, reconstruction or replacement, as set forth in reasonable detail in a Certificate of the Obligated Group Member delivered to the Master Trustee is less than 10% of the insured value of Property, Plant and Equipment at the applicable campus a Certificate of the applicable Obligated Group Member, stating that, in the signer's opinion, based upon information provided by the Insurance Consultant or, if unavailable, based upon the Obligated Group Member's best judgment of the net insurance proceeds anticipated, the Obligated Group Member will have sufficient funds from the net proceeds of insurance (including business income insurance and other available funds) to make the payments on Related Bonds, to pay the cost of repairing, restoring or replacing the portion of the Facilities affected by such loss or damage and to pay all operating expenses until completion of the repair, reconstruction or replacement of such part of the Facilities which is affected by such loss or damage and for the first full Fiscal Year after such completion; (2) an executed construction contract for such work at a guaranteed maximum price or fixed price; (3)

cash or an irrevocable letter of credit in an amount at least equal to the excess, if any, of the funds necessary for payment of the amounts due under such construction contract, over the available net insurance proceeds; and (4) the surety bonds and insurance during construction required under the Master Trust Indenture, then the Obligated Group Member shall promptly proceed to repair, reconstruct and replace such part of the Facilities, including all fixtures, furniture, equipment and effects, to its original condition insofar as possible. The moneys required for such repair, reconstruction and replacement shall be paid: (x) from the net proceeds of insurance (other than proceeds of business income insurance) received by reason of such occurrence, which net proceeds (after deducting any reasonable expenses incurred by the Master Trustee or the Corporation in collecting the same, the "Net Insurance Proceeds") shall be deposited with the Master Trustee, and (y) to the extent that such Net Insurance Proceeds are not sufficient, from moneys to be provided by the Obligated Group Member, which shall be deposited with the Master Trustee. The funds so deposited shall be maintained in a separate account and shall be disbursed by the Master Trustee only upon receipt by the Master Trustee of a requisition, numbered consecutively upwards from 1, signed by an Authorized Representative of the Obligated Group Member and the architect (each a "Requisition") and which shall state: (i) the name and address of the Person to whom the payment is to be made, (ii) the amount to be paid, (iii) the obligation on account of which the payment is to be made, showing the total obligation, any amount previously paid, and the unpaid balance, (iv) that the obligation was properly incurred and is a proper charge, (v) that the amount requisitioned is due and unpaid, (vi) that with respect to items covered in the Requisition, there are no vendors', mechanics', or other liens, bailment leases or conditional sale contracts which should be satisfied or discharged before the payments as requisitioned therein are made, or which will not be discharged before the payments requisitioned therein are made, or which will not be discharged by such payment, (vii) that the remaining amount deposited with the Master Trustee from Net Insurance Proceeds and moneys provided by the Obligated Group Member after the payment of the Requisition will be sufficient to pay all remaining costs of the project, (viii) that the work can be completed within the time shown on the schedule, and (ix) that the work performed or materials supplied is satisfactory to the Obligated Group Member.

Such Requisition shall be accompanied by acknowledgements of payment and waivers of lien from all persons supplying labor or materials for all lienable work done and materials delivered through the date of the previous requisition and bills of sale or equivalent documentation for any personal property included in the Requisition.

Notwithstanding the foregoing, if the estimated cost of such repair, reconstruction or replacement is less than 5% of insured value of Property, Plant and Equipment at the applicable campus, the Corporation shall not be required to deliver the items referred to in subparagraphs (1) through (4) above, the Net Insurance Proceeds shall be paid to the applicable Obligated Group Member and the Obligated Group Member shall promptly proceed with such repair, reconstruction or replacement. Any Net Insurance Proceeds remaining after the completion of such repair, replacement or reconstruction shall promptly at the direction of the Obligated Group Member's Authorized Representative be transferred to the Master Trustee and applied either (i) to the purchase of Related Bonds in the open market for the purpose of cancellation at prices not exceeding the current or first applicable optional prepayment price (including premium) at which Related Bonds may be prepaid plus accrued interest thereon to the date of payment therefor, or (ii) to pay the principal of or interest on the Related Bonds at maturity, or (iii) any combination of the foregoing, as may be provided in such direction; provided that before any funds are applied to pay interest on the Related Bonds, the Master Trustee shall have received an opinion of bond counsel or a ruling of the Internal Revenue Service that such payment will not adversely affect the exclusion from gross income under Section 103 of the Code of interest paid on the Related Bonds.

Notwithstanding the foregoing, if the Consultant advises that (i) the remaining facilities can continue to operate effectively with less than full repair, reconstruction and replacement thereof; (ii) the

Corporation can continue to maintain the requirements of “Rates and Charges,” above, for the next two full Fiscal Years, and (iii) there are not deficiencies in any of the funds established under any Related Bond Indenture, then any Net Insurance Proceeds remaining after the completion of partial repair, reconstruction or replacement (if any) shall promptly be deposited with the Trustee and applied in accordance with the Master Indenture.

If the architect advises that such repair, reconstruction or replacement is not practicable, or if the architect’s report or the Consultant’s report and other documents described in the second paragraph under this heading are not delivered within the required time period, then all Net Insurance Proceeds shall be applied to the prepayment of the Related Bonds; provided however, that in the case of damage to or destruction of all or substantially all of the Facilities the Obligated Group Member shall pay to the Master Trustee an amount sufficient, together with the Net Insurance Proceeds, to prepay all Related Bonds Outstanding.

EMINENT DOMAIN

Immediately after the commencement of any condemnation or similar proceedings by a third party in the exercise of a power of eminent domain, or a power in the nature of eminent domain affecting the Facilities, the applicable Obligated Group Member shall notify the Master Trustee, the architect and the Consultant in writing:

(a) any condemnation awards or other compensation received as a result of such proceedings shall be applied as provided in paragraphs (b), (c), (d), (e) and (f) below;

(b) the proceeds of any condemnation award or other compensation paid by reason of a conveyance in lieu of the exercise of such power, with respect to all or substantially all of the Facilities (after deducting any costs or expenses incurred by the Master Trustee or the Obligated Group Member in collecting the same, the “Net Condemnation Proceeds”) shall be paid to the Master Trustee for prepayment, at the direction of the Obligated Group Member, of Outstanding Related Bonds, and the Obligated Group Member shall pay to the Master Trustee prior to the prepayment date any additional amount required to effect such prepayment. Any Net Condemnation Proceeds received for a taking of less than substantially all of the Facilities shall be applied as provided in paragraphs (c), (d), (e) and (f) below;

(c) notwithstanding paragraph (d) below, if the estimated cost of replacing or restoring the portion of the Facilities affected by such taking or conveyance is less than 10% of insured value of Property, Plant and Equipment at the applicable campus, the Obligated Group Member shall not be required to deliver the items referred to in paragraph (d) below, the Net Condemnation Proceeds shall be paid to the Obligated Group Member and the Obligated Group Member shall promptly proceed to replace or restore such portion of the Facilities; provided that the Obligated Group Member shall not be required to replace or restore such portion of the Facilities so long as the Obligated Group Member delivers to the Master Trustee (i) a Certificate to the effect that such failure to replace or restore shall not affect the Obligated Group Member’s ability to comply with the provisions of the Master Indenture and (ii) an opinion of bond counsel to the effect that such failure to replace or restore will not have an adverse effect on any exclusion from gross income for federal income tax purposes of the interest on the Related Bonds;

(d) if, within 90 days of receipt of such condemnation award or other compensation which is greater than 10% of the insured value of Property, Plant and Equipment at the applicable campus, the applicable Obligated Group Member delivers to the Master Trustee a written Statement of the

architect stating such architect's estimate of the cost of replacing or restoring the portion of the Facilities affected by such taking or conveyance; and

(e) a Consultant's report or, if the estimated cost of replacement or restoration, as set forth in reasonable detail in a Certificate of the applicable Obligated Group Member delivered to the Master Trustee is less than 10% of the insured value of Property, Plant and Equipment at the applicable campus, a Certificate of the Obligated Group Member, stating that, in the signer's opinion, the Obligated Group Member will have sufficient funds from the Net Condemnation Proceeds (and from proceeds of use and occupancy insurance and other available funds) to make the payments required of the Obligated Group Member under the Related Bonds, to pay the cost of replacing or restoring the portion of the Facilities affected by such taking or conveyance and to pay all operating expenses until completion of the replacement or restoration of such portion of the Facilities which is affected by such taking or conveyance and for the first full Fiscal Year after such completion, then: (1) the Obligated Group Member may elect to replace or restore the portion of the Facilities affected by such taking or reconveyance, in which event the Obligated Group Member shall promptly proceed to replace or restore such portion of the Facilities, including any fixtures, furniture, equipment and effects, to its original usefulness and condition insofar as possible (unless the Obligated Group Member delivers to the Master Trustee an opinion of bond counsel to the effect that the Obligated Group Member's failure to replace or restore such portion of the Facilities to the original usefulness and condition will not have an adverse effect on any exclusion from gross income for federal income tax purposes of the interest on the Related Bonds), provided that the Obligated Group Member has delivered to the Master Trustee (i) an executed construction contract for such work at a price not greater than the amount stated in such architect's report and (ii) cash or an irrevocable letter of credit in an amount equal to the funds, if any, required by such architect's report in excess of the available Net Condemnation Proceeds, and (iii) any surety bonds and insurance during construction required under the Master Trust Indenture. The moneys required for such replacement or restoration shall be paid: (x) from the Net Condemnation Proceeds which shall be deposited with the Master Trustee and disbursed in accordance with the requisition procedure acceptable to the Master Trustee; and (y) to the extent that such proceeds are not sufficient, from moneys to be provided by the Obligated Group Member; or (2) the Obligated Group Member may elect to have all or part of such Net Condemnation Proceeds applied to the prepayment of Outstanding Related Bonds, and the Obligated Group Member shall pay any additional amount required to effect such prepayment; or (3) if the Statements of the architect and the Consultant required by paragraph (d) above and this subparagraph (e) are not delivered within the required time period, then the Net Condemnation Proceeds shall be deposited in the Principal Fund and applied to the prepayment of the Related Bonds, and the Obligated Group Member shall pay prior to the prepayment date any additional amount required to effect such prepayment;

(f) any Net Condemnation Proceeds remaining after the completion of such replacement or reconstruction shall promptly at the direction of the Authorized Representative of the Obligated Group Member be transferred to the Principal Fund and applied either (i) to the purchase of Related Bonds in the open market for the purpose of cancellation at prices not exceeding the current or first applicable optional prepayment price (including premium) at which Related Bonds may be prepaid plus accrued interest thereon to the date of payment therefor, or (ii) to the prepayment of Related Bonds in accordance with the Related Bond Indenture, or (iii) to pay the principal of or interest on the Related Bonds at maturity, or (iv) any combination of the foregoing, as may be provided in such direction; provided that before any funds are applied to pay interest on the Related Bonds, the Master Trustee shall receive an opinion of bond counsel or a ruling of the Internal Revenue Service that such payment will not adversely affect the exclusion from gross income under Section 103 of the Code of interest paid on the Related Bonds; and

(g) notwithstanding the foregoing, if the Consultant advises that (i) the Facilities can continue to operate effectively with less than full replacement or restoration of the portion of the Facilities

affected by such taking or conveyance, (ii) the Obligated Group Member can continue to comply with “Rates and Charges,” above for the following two full Fiscal Years, and (iii) there are no deficiencies in any of the funds established under any Related Bond Indenture, then any Net Condemnation Proceeds shall promptly be applied in accordance with paragraph (f) above.

JOINING THE OBLIGATED GROUP

Persons which are not Obligated Group Members may become an Obligated Group Member upon delivery to the Master Trustee of the following:

(a) a Supplemental Master Indenture containing the agreement of such Person: (1) to become an Obligated Group Member under the Master Indenture and thereby become subject to compliance with all provisions of the Master Indenture pertaining to an Obligated Group Member, including the performance and observance of all covenants and obligations of an Obligated Group Member; and (2) unconditionally and irrevocably guaranteeing to the Master Trustee and each other Obligated Group Member that all Obligations issued and then Outstanding will be paid in accordance with the terms thereof and of the Master Indenture when due;

(b) an opinion of counsel to the effect that: (1) the conditions contained in the Master Indenture relating to membership in the Obligated Group have been satisfied; (2) the Supplemental Master Indenture described in subparagraph (a) above has been duly authorized, executed and delivered by such Person and constitutes a legal, valid and binding obligation of such Person, enforceable in accordance with its terms, with such exceptions and limitations as are acceptable to the Master Trustee; and (3) under then existing law such Person becoming an Obligated Group Member will not subject any Obligations Outstanding under the Master Indenture to the registration provision of the Securities Act of 1933, as amended (or that such Obligations have been so registered if registration is required);

(c) if all amounts due or to become due on any Related Bond which bears interest which is not includable in gross income of the Holder under the Code, have not been fully paid to the Holder thereof, an opinion of bond counsel to the effect that under then existing law the consummation of such transaction, whether or not contemplated on any date of the delivery of any such Related Bond, would not adversely affect the exemption from federal income taxation of interest payable on any such Related Bond;

(d) a report of a Consultant or Accountant, or an Officer’s Certificate, as appropriate, to the effect that the condition described in subparagraph (a)(2) or (3) of “Limitations on Additional Indebtedness,” above, would be met for the incurrence of one additional dollar of Long-Term Indebtedness; provided that, in calculating Income Available for Debt Service (i) there shall be excluded from revenues of such Persons any revenues generated by Property of such Persons previously transferred or otherwise disposed of by such Person and (ii) there shall be excluded from expenses of such Persons any expenses related to Property of such Person previously transferred or otherwise disposed of by such Person;

(e) an Officer’s Certificate to the effect that immediately upon any Person becoming an Obligated Group Member, the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed or observed by it under the Master Indenture;

(f) a resolution of the Board of Directors of the Obligated Group Representative, consenting to the addition of such Person to the Obligated Group; and

(g) an irrevocable power of attorney authorizing the execution of Obligations by the Obligated Group Representative.

WITHDRAWAL FROM THE OBLIGATED GROUP

No Obligated Group Member may withdraw from the Obligated Group, unless such Obligated Group Member is not a Primary Obligor and the Master Trustee receives the following:

(a) the written consent of the Obligated Group Representative to the withdrawal of such Obligated Group Member from the Obligated Group;

(b) if all amounts due on any Related Bond which bears interest that is not includable in gross income under the Code have not been paid to the Holder thereof, an opinion of bond counsel, to the effect that under then existing law such Obligated Group Member's withdrawal from the Obligated Group would not adversely affect the exemption from federal income taxation of interest payable on any such Related Bond;

(c) a written report of an Accountant stating that, upon the withdrawal of such Obligated Group Member from the Obligated Group, the condition described in subparagraph (a)(2) or (3) of "Limitations on Additional Indebtedness," above, would be met for the incurrence of one additional dollar of Long-Term Indebtedness;

(d) an Officer's Certificate to the effect that, upon the withdrawal of such Obligated Group Member from the Obligated Group, the Obligated Group would not be in default in the performance or observance of any covenant or condition to be performed or observed by it.

EVENT OF DEFAULT

Event of Default, as used in the Master Indenture, shall mean any of the following events:

(a) the Obligated Group shall fail to make any payment required by any Obligation within 10 days of the date that such payment shall become due and payable, in accordance with the terms thereof, of the Master Indenture and any Supplemental Master Indenture;

(b) any Obligated Group Member shall fail duly to observe or perform any covenant or agreement on its part under the Master Indenture (other than as referred to in subparagraph (a) above) 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 Member by the Master Trustee, or to the Obligated Group Member and the Master Trustee by the Holders of at least 25% in aggregate principal amount of Obligations then Outstanding; except that, if such failure may be remedied but not within such 60-day period and if the Obligated Group Member has taken all action reasonably possible to remedy such failure or breach within such 60-day period, such failure shall not become an Event of Default for so long as the Obligated Group Member shall diligently proceed to remedy the same;

(c) an event of default shall occur and be continuing under a Related Bond Indenture (which "event of default" shall be defined in such Related Bond Indenture) or upon a Related Bond;

(d) any Obligated Group Member shall fail to make any required payment with respect to any Indebtedness (other than Obligations issued and Outstanding and other than any other Indebtedness which is Non-Recourse Indebtedness) in an aggregate amount greater than 2% of Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are

available, whether such Indebtedness now exists or shall hereafter 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 issued, or by which there may be secured or evidenced, any Indebtedness in an aggregate amount greater than 2% of Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available, whether such Indebtedness now exists or shall hereafter be created, shall occur, provided, however, that such default will not constitute an Event of Default if within 30 days, or within the time allowed for service of a responsive pleading if any proceeding to enforce payment of the Indebtedness is commenced (1) the Corporation or such Obligated Group Member, or both, in good faith commence proceedings to contest the existence or payment of such Indebtedness, and (2) sufficient moneys are escrowed with a bank or trust company for the payment of such Indebtedness;

(e) the entry of a decree or order by a court having jurisdiction in the premises adjudging any Obligated Group Member a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of any Obligated Group Member under the Federal Bankruptcy Code or any other applicable federal or state law, or appointing a receiver, liquidator, assignee or sequestrator (or other similar official) of the Obligated Group Member or of any substantial part of its Property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 90 consecutive days;

(f) the institution by any Obligated Group Member of proceedings to be adjudicated a bankrupt or insolvent, or the consent by it to the institution of bankruptcy or insolvency proceedings against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under the Federal Bankruptcy Code or any other similar applicable federal or state law, or the consent by it to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of any Obligated Group Member or of any substantial part of its Property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due.

ACCELERATION; ANNULMENT OF ACCELERATION

Upon Actual Knowledge of the occurrence and during the continuation of an Event of Default, the Master Trustee may, and (i) upon the written request of the Holders of not less than 25% in aggregate principal amount of Obligations issued and Outstanding or upon the written request of any Holder if an Event of Default described in subparagraph (b) under “Event of Default,” above, has occurred with respect to such Holder’s Obligation, or (ii) upon the acceleration of any Obligation pursuant to the terms of the Supplemental Master Indenture pursuant to which such Obligation was issued, the Master Trustee shall, by notice to the Obligated Group Members, declare all Obligations issued and Outstanding immediately due and payable; provided, however, that if the terms of any Supplemental Master Indenture give a Person the right to consent to acceleration of the Obligations issued pursuant to such Supplemental Master Indenture, the Obligations issued pursuant to such Supplemental Master Indenture may not be accelerated by the Master Trustee unless such consent is properly obtained pursuant to the terms of such Supplemental Master Indenture.

In the event of the acceleration of all Obligations, there shall be due and payable on the Obligations an amount equal to the total principal amount of all such Obligations, plus all interest accrued thereon and, to the extent permitted by applicable law, which accrues to the date of payment.

At any time after the principal of the Obligations shall have been so declared to be due and payable and before the entry of final judgment or decree in any suit, action or proceeding instituted on account of such default, if: (1) the Obligated Group has paid or deposited with the Master Trustee moneys

sufficient to pay all matured installments of interest and interest on installments of principal and interest and principal or redemption prices or other payments then due (other than the principal or other payments then due only because of such declaration) of all Obligations issued and Outstanding; (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) all other amounts then payable by the Obligated Group shall have been paid 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 of such Obligations then due only because of such declaration) shall have been remedied; then the Master Trustee may annul such declaration and its consequences with respect to any Obligations or portions thereof not then due by their terms. No such annulment 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 written request of the Holders of not less than 25% in aggregate principal amount of the Obligations issued and Outstanding together with indemnification of the Master Trustee to its satisfaction therefor, shall proceed to protect and enforce its rights and the rights of the Holders of Obligations issued by such suits, actions or proceedings as the Master Trustee, being advised by counsel, shall deem expedient, including but not limited to: (1) enforcement of the right of such Holders to collect and enforce the payment of amounts due or becoming due under the Obligations; (2) suit upon all or any part of the Obligations; (3) civil action to require any Person holding moneys, documents or other property pledged to secure payment of amounts due or to become due on the Obligations to account as if it were the trustee of an express trust for the Holders of Obligations; (4) by mortgage foreclosure, trustee's sale, or other proceeding in law or in equity, exercise all rights and remedies provided in any deed of trust given to secure payment of amounts due or to become due on the Obligations; (5) civil action to enjoin any acts or things, which may be unlawful or in violation of the rights of the Holders of Obligations; and (6) enforcement of any other right of such Holders conferred by law or by the Master Indenture.

Regardless of the happening of an Event of Default, the Master Trustee may and if requested in writing by the Holders of not less than 25% in aggregate principal amount of the Obligations then Outstanding shall, upon being indemnified to its satisfaction therefor, institute and maintain such suits and proceedings as it may be advised shall be necessary or expedient (1) to prevent any impairment of the security under the Master Indenture by any acts which may be unlawful or in violation thereof, or (2) to preserve or protect the interests of the Holders, provided that such request and the action to be taken by the Master Trustee are not in conflict with any applicable law or the provisions of the Master Indenture and, in the sole judgment of the Master Trustee, is not unduly prejudicial to the interest of the Holders of Obligations not making such request.

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 foregoing provisions, and any amounts transferred and deposited in an account pursuant to the Master Indenture, net of any amounts retained by the Master Trustee after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses and advances incurred or made by the Master Trustee with respect thereto and all other fees and expenses of the Master Trustee under the Master Indenture shall be applied as follows:

(a) Unless the principal of all Outstanding Obligations issued shall have become or have been declared due and payable: First, to the payment to the Persons entitled thereto of all installments of interest then due on the Obligations in the order of the maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment or installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon to the Persons entitled thereto, without any discrimination or preference; and Second, to the payment to the Persons entitled thereto of the unpaid principal installments of any Obligations which shall have become due, whether at maturity or by call for redemption, in the order of their due dates, and if the amounts available are not sufficient to pay in full all the Obligations due on any date, then to the payment thereof ratably, according to the amounts of principal installments due on such date, to the Persons entitled thereto, without any discrimination or preference.

(b) If the principal of all Outstanding Obligations shall become due and payable, to the payment of the principal and interest then due and unpaid upon the Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or preference. If the principal of all Outstanding Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled, then, subject to the provisions of this paragraph, in the event that the principal of all Outstanding Obligations shall later become due or are declared due and payable, the moneys shall be applied in accordance with the provisions of paragraph (a), above.

Whenever moneys are to be applied by the Master Trustee pursuant to the provisions under this heading, such moneys shall be applied by it at such times, and from time to time, as the Master 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 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 notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation presented to the Master Trustee for appropriate endorsement of any partial payment or for cancellation if fully paid.

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

HOLDERS OF OBLIGATIONS CONTROL OF PROCEEDINGS

If an Event of Default has 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 and accompanied by indemnity satisfactory to the Master Trustee, to direct the method and place of conducting any proceeding to be taken in connection with the enforcement of the terms and conditions of the Master Indenture or for the appointment of a receiver or any other proceedings under the Master Indenture, provided, that such direction is not in conflict with any applicable law or the provisions of the Master Indenture and provided, further, that the Master Trustee shall have the right to decline to follow any such direction if the Master Trustee in good faith shall determine that the proceeding so directed would involve it in personal liability, and, in the sole judgment of the Master Trustee, is not

unduly prejudicial to the interest of Holders of Obligations not joining in such direction and provided, further, that nothing under this heading shall impair the right of the Master Trustee in its discretion to take any other action under the Master Indenture which it may deem proper and which is not inconsistent with such direction by Holders of Obligations.

WAIVER OF EVENT OF DEFAULT

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

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 under the Master Indenture.

Notwithstanding anything contained in the Master Indenture to the contrary, the Master Trustee, upon the written request of the Holders of at least a majority of the aggregate principal amount of Obligations then Outstanding, shall waive any Event of Default and its consequences; provided, however, that, except under the circumstances set forth in the second paragraph of "Accelerating; Annulment of Acceleration," above, a default in the payment of the principal of, premium, if any, or interest on any Obligation, when the same shall become due and payable by the terms thereof or upon call for redemption, may not be waived without the written consent of the Holders of all the Obligations, respectively, at the time Outstanding.

In case of any waiver by the Master Trustee of an Event of Default, each Obligated Group Member, the Master Trustee and the Holders of Obligations shall be restored to their former positions and rights under the Master Indenture, respectively, but no such waiver shall extend to any subsequent or other Event of Default or impair any right consequent thereon.

REMOVAL AND RESIGNATION OF THE MASTER TRUSTEE

As long as no Event of Default shall have occurred under the Master Indenture, the Obligated Group Representative may, upon written notice to the Master Trustee, remove the Master Trustee. The Master Trustee may resign on its motion or may be removed at any time by an instrument or instruments in writing signed by the Holders of not less than 50% of the principal amount of Obligations then Outstanding. No such resignation or removal shall become effective unless and until a successor Master Trustee (or temporary successor Master Trustee as provided below) has been appointed and has assumed the trusts created by the Master Indenture. Written notice of such resignation or removal shall be given to the members of the Obligated Group and to each Holder of an Obligation then Outstanding at the address then reflected on the books of the Master Trustee and such resignation or removal shall take effect upon the appointment and qualification of a successor Master Trustee. A successor Master Trustee may be appointed at the direction of the Holders of not less than 50% in aggregate principal amount of Obligations then Outstanding. In the event 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 Obligated Group Member or any Holder of an Obligation may apply to any court of competent jurisdiction for the appointment of a temporary successor Master Trustee to act until such time as a successor is appointed as above provided.

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, corporation 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 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 shall execute, acknowledge and deliver to its predecessor and also to the Corporation and each issuer of an Obligation an instrument in writing, accepting such appointment, and thereupon such successor Master Trustee, without further action, shall become fully vested with all the rights, immunities, powers, trusts, duties and obligations of its predecessor, and such predecessor shall execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of such predecessor. 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 material records relating to the trust or copies thereof and on request 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 registered Holder of an Obligation.

SUPPLEMENTAL MASTER INDENTURES NOT REQUIRING CONSENT OF HOLDERS OF OBLIGATIONS

Each Obligated Group Member, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee may, without the consent of or notice to any of the Holders, enter into one or more Supplemental Master Indentures for one or more of the following purposes:

- (a) to cure any ambiguity or formal defect or omission under 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 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 that may lawfully be granted or conferred upon them subject to the provisions of the first paragraph under the heading below;
- (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 Obligations as permitted under the Master Indenture; and
- (f) to evidence the succession of another corporation to any Obligated Group Member, or successive successions, or the additions of a Person to the Obligated Group, and the assumption by the successor corporation or additional Obligated Group Member of the covenants, agreements and obligations of the Obligated Group Member summarized above under the heading “Days Cash on Hand” and “Joining the Obligated Group,” respectively, and to evidence the withdrawal of an Obligated Group Member from the Obligated Group pursuant to the Master Indenture.

SUPPLEMENTAL MASTER INDENTURES REQUIRING CONSENT OF HOLDERS OF OBLIGATIONS

Other than Supplemental Master Indentures referred under the previous heading and subject to the terms and provisions and limitations contained in the Master Indenture and not otherwise, the Holders of not less than a majority in aggregate principal amount of the Obligations then Outstanding shall have the right, from time to time, anything contained in the Master Indenture to the contrary notwithstanding, to consent to and approve the execution by each Obligated Group Member, when authorized by resolution or other action of equal formality by its Governing Body, and the Master Trustee of such Supplemental Master Indentures 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; provided, however, nothing under this heading shall permit or be construed as permitting a Supplemental Master Indenture which would: (1) 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 payable on any Obligation or change the method of calculating interest on an Obligation without the consent of the Holder of such an Obligation; (2) modify, alter, amend, add to or rescind any of the terms or provisions contained in the Master Indenture in any manner which would materially and adversely affect the interests of the Holders of Obligations or any of them without the consent of the Holders of all Obligations then Outstanding; or (3) reduce the aggregate principal amount of Obligations then Outstanding the consent of the Holders of which is required to authorize such Supplemental Master Indentures without the consent of the Holders of all Obligations then Outstanding.

AMENDMENT OF REPEAL OF MASTER INDENTURE

At the option of the Corporation, the Master Indenture may be amended or repealed upon receipt by the Master Trustee of the following:

(a) a Request of the Corporation requesting execution and delivery of a supplemental Master Indenture and stating that the Corporation has become a member of an obligated group under another master indenture (the "Substitute Master Indenture") and that one or more obligations (each, a "Substitute Obligation") are being issued in place of each Obligation Outstanding;

(b) a properly executed counterpart of each Substitute Obligation, issued under the Substitute Master Indenture and registered in the name of the respective Holder, duly authenticated by the master trustee under the Substitute Master Indenture;

(c) an opinion of counsel to the effect that each Substitute Obligation has been validly issued under the Substitute Master Indenture and constitutes a valid and binding obligation of the Obligated Group Members and each other member of the obligated group under the Substitute Master Indenture;

(d) an opinion of bond counsel to the effect that the amendment or repeal under this heading will not result in interest on any Related Bonds ceasing to be excluded from gross income pursuant to Section 103 of the Code;

(e) a copy of the Substitute Master Indenture, certified as a true and accurate copy by the master trustee under the Substitute Master Indenture;

(f) a report of a Consultant to the effect that the Corporation could issue at least one dollar of Long Term Indebtedness under the Master Indenture immediately following the execution and delivery of the Substitute Master Indenture by the Corporation assuming no amendment or repeal of the Master Indenture; and

(g) evidence from any Rating Agency then rating any debt of the Obligated Group that the amendment or repeal will not, in and of itself, cause such Rating Agency to reduce or withdraw the then existing ratings.

Upon satisfaction of the foregoing conditions, the Master Trustee and the Corporation shall execute a supplemental Master Indenture and such additional documentation as may be reasonably necessary.

SATISFACTION AND DISCHARGE OF MASTER INDENTURE

If: (a) the Corporation shall deliver to the Master Trustee for cancellation all Obligations theretofore authenticated (other than any Obligations which have been mutilated, destroyed, lost or stolen and which have been replaced or paid as provided in a Supplemental Master Indenture) and not theretofore cancelled; or (b) all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation shall have become due and payable and been paid; or (c) the Obligated Group Members shall deposit with the Master Trustee (or with a bank or trust company acceptable to the Master Trustee pursuant to an agreement between the Obligated Group Members and such bank or trust company in form acceptable to the Master Trustee) as trust funds the entire amount of moneys or Government Obligations, the principal of and the interest on which when due, will be sufficient, in the opinion of an independent public accountant to pay at maturity or upon redemption all Obligations not theretofore cancelled or delivered to the Master Trustee for cancellation, including 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 such case the Obligated Group Members shall also pay or cause to be paid all other sums payable under the Master Indenture by the Obligated Group Members, then the Master Indenture shall cease to be of further effect, and the Master Trustee, on demand of the Obligated Group Members, and at the cost and expense of the Obligated Group Members, shall execute proper instruments acknowledging satisfaction of and discharging the Master Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE SIXTH SUPPLEMENTAL MASTER INDENTURE

The Sixth Supplemental Master Indenture contains certain covenants and amendments made for the benefit of the Bond Insurer (the “Bond Insurer Covenants and Amendments”) as the insurer of the Bonds. Notwithstanding anything in the Sixth Supplemental Master Indenture or Bond Insurance Policy to the contrary, the Bond Insurer Covenants and Amendments will be effective only during the period that any of the Bonds are outstanding under the Bond Indenture and the Bond Insurer is not in default under the Bond Insurance Policy; provided, however, that if at any time the Bond Insurer shall have no rights under the Bond Indenture, the Obligated Group will not be obligated to comply with the Bond Insurer Covenants and Amendments and the same will not be effective.

The Bond Insurer Covenants and Amendments may only be enforced by the Bond Insurer, or by the Master Trustee at the direction of the Bond Insurer. So long as the Bond Insurance Policy is in full force and effect, such covenants may be modified, amended or waived at any time with the prior written consent of the Bond Insurer and without the consent of the Master Trustee, the bond trustee for the Bonds, any holder of Obligation No. 7 or any other Obligations or any holder or owner of the Bonds or any other Related Bonds.

CREATION OF OBLIGATION NO. 7

The Sixth Supplemental Master Indenture, among other things, creates an Obligation of the Corporation to be known as and entitled “Eskaton Properties, Inc. Obligation No. 7” (“Obligation

No. 7”). Obligation No. 7 shall be issuable without coupons and shall be dated as of December [], 2005. Obligation No. 7 is to be issued in the principal amount of \$49,000,000 and shall be registered in the name of the Bond Trustee.

The Corporation desires to issue Obligation No. 7 hereunder to evidence its obligation arising under that certain loan agreement between the Corporation and ABAG Finance Authority for Nonprofit Corporations dated as of December 1, 2005 (the “Loan Agreement”) assigned to The Bank of New York Trust Company, N.A., as Trustee (the “Bond Trustee”) pursuant to an Bond Trust Indenture dated as of December 1, 2005.

Payments on Obligation No. 7 shall be made as set forth in the form of Obligation No. 7, which form is provided in the Sixth Supplemental Master Indenture. Obligation No. 7 shall be executed, authenticated and delivered in accordance with the Master Indenture. The Corporation shall be the Primary Obligor with respect to Obligation No. 7.

EVENTS OF DEFAULT; ACCELERATION

An “Event of Default” under the Loan Agreement shall constitute an Event of Default under the Sixth Supplemental Master Indenture and the Master Indenture.

Upon the occurrence of an Event of Default under the Master Indenture, the Master Trustee shall, if requested by the Holder of Obligation No. 7, regardless of whether the amount owing under Obligation No. 7 equals at least 25% of the aggregate principal amount of all Obligations issued under the Master Indenture then Outstanding, give notice pursuant to the Master Indenture to the Obligated Group declaring the principal of all Obligations issued under the Master Indenture then Outstanding to be due and immediately payable, notwithstanding anything in the Master Indenture or in such Obligations contained to the contrary.

ADDITION OF NEW OBLIGATED GROUP MEMBER

Pursuant to the terms of the Sixth Supplemental Master Indenture, Eskaton Village – Grass Valley (a) will become an Obligated Group Member under the Master Indenture, (b) agrees to comply with the provisions of the Master Indenture pertaining to an Obligated Group Member, including the performance and observance of all covenants and obligations of an Obligated Group Member thereunder, and (c) unconditionally and irrevocably guarantees to the Master Trustee and each other Obligated Group Member that all Obligations now issued and Outstanding under the Master Indenture will be paid in accordance with their terms and the terms of the Master Indenture.

AMENDMENT TO MASTER INDENTURE

Set forth below is a summary of the amendments to the Master Indenture which are made in the Sixth Supplemental Master Indenture solely for the benefit of the Bond Insurer.

RATES AND CHARGES

The provisions of the Master Indenture summarized under the caption “Rates and Charges” are modified by the Sixth Supplemental Master Indenture to provide that:

Commencing the Fiscal Year beginning January 1, 1999, each Obligated Group Member covenants to set rates and charges for its facilities and services so that in any Fiscal Year the Debt Service Coverage Ratio, calculated at the end of such Fiscal Year, is not less than 1.20.

If at any time the ratio required by the previous paragraph is not met, the Obligated Group Representative shall promptly retain a Consultant to make recommendations to increase such ratio for subsequent Fiscal Years to the levels required or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Each Obligated Group Member, respectively, agrees that to the extent permitted by law it will follow the recommendations of the Consultant. So long as the Obligated Group shall retain a Consultant and follow such Consultant's recommendations, this paragraph shall be deemed to have been complied with for any such Fiscal Year, even if such ratio is below the previously referred to level for such Fiscal Year, provided that such ratio is not less than 1.0.

Notwithstanding any other provisions of the Master Indenture, in the event any Obligated Group Member engages in a construction project described in subparagraph (a) under the caption "Proceeds of Hazardous Insurance" of this Summary of Certain Provisions of the Sixth Supplemental Master Indenture, or having a construction cost of \$15,000,000 or more, and it shall have established a capitalized interest fund to pay interest during construction on Indebtedness related to the project, the amounts paid from said capitalized interest fund during any period shall be included in the definition of "Income Available for Debt Service" for such period for purpose of calculating the Debt Service Coverage Ratio and the amount deposited in such fund shall be excluded from the definition of "Cash on Hand."

Notwithstanding the foregoing, an Obligated Group Member may permit the rendering of service at, or the use of, its facilities without charge or at reduced charges, at the discretion of the Governing Body of such Obligated Group Member, to the extent necessary for maintaining its tax-exempt status and its eligibility for grants, loans, subsidies or payments from the United States of America, any instrumentality thereof, or any state in which it conducts its business or any instrumentality thereof, or in compliance with any recommendation for free services that may be made by a Consultant.

LIMITATIONS ON LIENS

The provisions of the Master Indenture summarized under the caption "Limitations on Liens" are modified by the Sixth Supplemental Master Indenture to add that any Lien on any of the Facilities, created pursuant to the first paragraph of "Limitations on Liens" included in the Summary of Certain Provisions of the Master Indenture, shall be reconveyed by the Master Trustee to the grantor thereof upon the request of the Obligated Group Representative with the consent of the Bond Insurer, provided that so long as the ACA Insurance is in full force and effect, the reconveyance of the Lien on the property comprising Eskaton Village of Carmichael, as described in Exhibit A to the Deed of Trust with Assignment of Leases and Rents, Security Agreement and Fixture Filing dated as of July 1, 1999, shall also require the approval of ACA if Obligation No. 1 is then Outstanding.

LIMITATIONS ON ADDITIONAL INDEBTEDNESS

The provisions of the Master Indenture summarized under the caption "Limitations on Additional Indebtedness" are modified by the Sixth Supplemental Master Indenture to provide that each Obligated Group Member, respectively, agrees that it will not incur any Additional Indebtedness (whether through the issuance of Obligations or otherwise) other than Additional Indebtedness described below, which Additional Indebtedness may be incurred only in the manner and pursuant to the terms as follows:

(a) Long-Term Indebtedness, if prior to incurrence of any Long-Term Indebtedness, one of the following two conditions is met (1) there is delivered to the Master Trustee an Officer's Certificate, accompanied by the Certificate of an Accountant confirming the contents thereof, certifying that the Debt Service Coverage Ratio, taking into account all Outstanding Long-Term Indebtedness and the Long-Term Indebtedness then to be incurred, for each of the two most recent Fiscal Years for which

audited Financial Statements are available is not less than 1.20 for the first such Fiscal Year and 1.30 for second such Fiscal Year; or (2) (A) there is delivered to the Master Trustee an Officer's Certificate certifying the ratio determined by dividing the Income Available for Debt Service by the Debt Service Requirement, taking into account all Outstanding Long-Term Indebtedness, but not the Long-Term Indebtedness then to be incurred, for the most recent Fiscal Year for which audited Financial Statements are available and that such ratio is not less than 1.20; and (B) there shall be filed with the Master Trustee the report of a Consultant to the effect that the forecast Debt Service Coverage Ratio, taking the proposed Long-Term Indebtedness then to be incurred into account (or an Officer's Certificate if such forecast Debt Service Coverage Ratio is not less than 1.60), for (i) in the case of Long-Term Indebtedness (other than a Guaranty) to finance capital improvements, each of the first two full Fiscal Years succeeding the later of the date on which such capital improvements are expected to be in operation and the date on which Break Even Occupancy are expected to have been sustained for a period of 3 months, but in no event later than the date through which interest on such Long-Term Indebtedness is funded, or (ii) in the case of Long-Term Indebtedness not financing capital improvements or in the case of a Guaranty, each of the first two full Fiscal Years succeeding the date on which such Long-Term Indebtedness is incurred, for each such period is not less than 1.30, as shown by forecast statements of revenue and expense for each such period, accompanied by a statement of the relevant assumptions upon which such forecasted statements are based;

(b) Completion Indebtedness, not to exceed 10% of the principal amount of the Indebtedness originally incurred to finance the project for which such Completion Indebtedness is required;

(c) Long-Term Indebtedness for the purpose of refunding (including crossover refunding) 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 following such refunding does not exceed 110% of the Maximum Annual Debt Service prior to such refunding;

(d) Short-Term Indebtedness, provided that (i) immediately after the incurrence of such Indebtedness the Outstanding principal amount of all such Indebtedness does not exceed 15% of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available and (ii) for a period of 30 consecutive calendar days in each such Fiscal Year, the amount of Short-Term Indebtedness Outstanding must be reduced to an amount not greater than 3% of the maximum amount of Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available;

(e) Non-Recourse Indebtedness in an aggregate principal amount which, when added to the aggregate principal amount of all other Non-Recourse Indebtedness then outstanding, does not exceed 15% of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available; provided, however, that the Obligated Group Representative shall have filed a Certificate with the Bond Trustee to the effect that revenue derived from property acquired with the proceeds of such Non-Recourse Indebtedness is projected to be sufficient to pay for operating expenses of such property and Debt Service on such Non-Recourse Indebtedness;

(f) Balloon Indebtedness may be incurred provided that (1) at the time such Balloon Indebtedness is to be incurred the conditions described in subsection (a)(1) or (2) under this heading are met with respect to such Balloon Indebtedness, assuming any such Balloon Indebtedness for which a binding take-out commitment, issued by a financial institution whose obligations are rating in one of the top three rating categories by the Rating Agency, is in place at the time of incurrence to pay off the Balloon Indebtedness when 25% or more comes due or the aggregate principal amount of which does not

exceed 15% of the Adjusted Annual Operating Revenues, to be Long-Term Indebtedness, as if it were being repaid in substantially equal annual installments of principal and interest over a term of the lesser of 25 years or the economic life of the asset being financed and bearing interest at an interest rate equal to the rate which the Obligated Group could reasonably be expected to borrow at for such term by issuing an Obligation. There shall be delivered to the Master Trustee, together with any Officer's Certificate or report of a Consultant required by subsection (b), a letter of a Consultant or a banking or investment banking institution knowledgeable in matters of senior care and housing finance, confirming that the interest rate assumption set forth in such Certificate complies with the requirements of this subparagraph; or (2) (i) the Obligated Group Member incurring such Balloon Indebtedness establishes in an Officer's Certificate filed with the Bond Trustee an amortization schedule for such Balloon Indebtedness, which amortization schedule shall provide for substantially equal payments of principal and interest for each Fiscal Year over a period which does not extend beyond the maturity of such Balloon Indebtedness that are not less than the amounts required to make any actual payments required to be made in such Fiscal Year by the terms of such Balloon Indebtedness; (ii) the Obligated Group Member incurring such Balloon Indebtedness agrees in such Officer's Certificate to cause to be deposited during each Fiscal Year with a bank or trust company (pursuant to an agreement between such Obligated Group Member and such bank or trust company) the amount of principal shown on such amortization schedule net of any amount of principal actually paid on such Balloon Indebtedness during such Fiscal Year (other than from amounts on deposit with such bank or trust company) which deposit shall be made prior to any such required actual payment during such Fiscal Year if the amounts so on deposit are intended to be the source of such actual payments; (iii) such Obligated Group Member makes all payments of principal and interest in such amounts and by such dates as shown on such amortization schedule and (iv) the conditions described in paragraph (a) above are met when it is assumed that such Balloon Indebtedness is actually payable in accordance with such amortization schedule; or (3) (i) such Balloon Indebtedness is used to acquire Facilities; (ii) the principal amount of such Balloon Indebtedness does not exceed 20% of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited financial statements are available, and (iii) the Obligated Group Member incurring such Balloon Indebtedness files with the Bond Trustee a report of a Consultant to the effect that, in the opinion of the Consultant, such Balloon Indebtedness can be replaced, at or prior to its maturity, with Long-Term Indebtedness having a term of not less than 25 years and other terms and conditions which are commercially reasonable; and (iv) the conditions of paragraph (a) above are met when it is assumed that such Balloon Indebtedness will be paid in equal installments of principal and interest over a 25 year term.

(g) Variable Rate Indebtedness incurred pursuant to any other paragraph under this heading, provided that the interest rate on such Indebtedness for periods when the actual interest rate cannot yet be determined shall be assumed to be equal to 110% of the average interest rate (calculated in the manner in which the rate of interest is expressed to be calculated) that was or would have been in effect for the 12-month period immediately preceding the date on which such calculation is made; provided, however, that if such average annual rate of interest cannot be calculated for such entire 12-month period but can be calculated for a shorter period, then the assumed interest rates shall be 110% of (i) the Bond Market Association Municipal Swap Index for tax-exempt debt, and (ii) LIBOR for taxable debt;

(h) Put Debt and Extendable Debt may be incurred provided that at the time such Put Debt or Extendable Debt is to be incurred the conditions described in paragraph (a) above are met with respect to such Put Debt or Extendable Debt, assuming the term and amortization of such Put Debt or Extendable Debt are as set forth therein, notwithstanding any put options contained therein; but only, with respect to Put Debt, if there is in place at the time of calculation a credit facility or other refinancing commitment from a financial institution with a long-term credit or claims-paying rating in one of the three highest rating categories (without regard to gradations within major categories) of each of the Rating Agencies, under which such institution is unconditionally obligated to provide funds for the purchase or

redemption of such Put Debt by the holder thereof, which provision of funds is required to be reimbursed (on a level installment basis) by the applicable Obligated Group Members over a period no shorter than 5 years;

(i) Reimbursement or other repayment obligations arising under reimbursement or similar agreements with banks or other financial institutions relating to letters or lines of credit or similar credit facilities used to secure Indebtedness;

(j) Liabilities under capitalized lease agreements for the lease of, or indebtedness for money borrowed or liabilities under instruments evidencing deferred payment arrangements for the purchase of, equipment, tangible personal property or real property provided that the aggregate amount incurred by the Obligated Group under this subparagraph shall not exceed at the time of incurrence 7.5% of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available, as shown on or derived from such audited Financial Statements;

(k) Unlimited contributions to self-insurance or shared or pooled risk insurance programs;

(l) Other Indebtedness (which may be secured by Obligations issued under the Master Indenture), the principal amount of which, when added to the principal amount of all other Long-Term Indebtedness incurred under this paragraph and then outstanding, does not exceed 10% of Adjusted Annual Operating Revenues for the most recent Fiscal Year for audited financial statements are available; and

(m) the aggregate of the Outstanding Indebtedness incurred under subsections (d), (f)(1), (j) or (l) above shall not exceed, at the time of incurrence of any such Indebtedness, 25% of the Adjusted Annual Operating Revenues for the most recent Fiscal Year for which audited Financial Statements are available.

CONSOLIDATION, MERGER, SALE OR CONVEYANCE

The first paragraph of the Master Indenture summarized under the caption “Consolidation, Merger, Sale and Conveyance” is modified by the Sixth Supplemental Master Indenture and replaced in its entirety to provide:

Each Obligated Group Member, respectively, covenants that it will not (i) merge or consolidate with any other corporation which is not an Obligated Group Member, (ii) sell or convey all or substantially all of its assets to any Person which is not an Obligated Group Member, or (iii) acquire all or substantially all of the assets (if the fair market value of such assets exceed 10% of the assets of the Obligated Group) of any Person which is not an Obligated Group Member, unless:

Sections (b)(2) and (b)(4) of the Master Indenture summarized under the caption “Consolidation, Merger, Sale or Conveyance” are modified by the Sixth Supplemental Master Indenture and replaced in their entirety to provide:

(b) (2) a report of a Consultant or Accountant, or an Officer’s Certificate, as appropriate, to the effect that, following such consolidation, merger, sale or conveyance, (i) the conditions described in subparagraph (a) of the section entitled “Limitations on Additional Indebtedness” would be met for the incurrence of one dollar of Long-Term Indebtedness, and (ii) unless waived by the Bond Insurer, the Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available would not be less than 1.30 and would not be lower than 70% of the

Debt Service Coverage Ratio without taking into account the consolidation, merger, sale or conveyance and immediately following such consolidation, merger, sale or conveyance, the Obligated Group has not less than 120 Days Cash on Hand;

(b) (4) an opinion of counsel to the effect that (i) such consolidation, merger, sale or conveyance, and any such assumption, complies with the provisions under this heading and that it is permissible 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 this section; (ii) each instrument executed and delivered to the Master Trustee in accordance with the Master Indenture has been duly authorized, executed and delivered by the successor corporation and constitutes a legal, valid and binding obligation enforceable in accordance with its terms; and (iii) such consolidation, merger, sale or conveyance will not result in the resulting Obligated Group Member ceasing to be an organization described in Section 501(c)(3) of the Code; and (iv) under then existing law the consummation of such merger, consolidation, sale or conveyance will not subject any Obligations Outstanding under the Sixth Supplemental Master Indenture to the provisions of the Securities Act of 1933, as amended (or that such Obligations have been so registered if registration is required);

The Master Indenture summarized under the caption “Consolidation, Merger, Sale or Conveyance” is modified by the Sixth Supplemental Master Indenture to add a subsection (e) as follows:

(e) Prior written consent of ACA thereto shall have been submitted to the Master Trustee, so long as the ACA Insurance remains in effect.

SALE, LEASE OR OTHER DISPOSITION OF ASSETS

Sections (b), (f) and (g) of the Master Indenture summarized under the caption “Sale, Lease or Other Disposition of Assets” are modified by the Sixth Supplemental Master Indenture and replaced in their entirety to provide:

(b) In connection with a “sale and leaseback” transaction that would be treated as and constitute a true sale and leaseback under the Code, provided that any such transaction is approved by the Bond Insurer and that the obligations thereunder shall be secure other obligations of the Obligated Group, provided all Obligations Outstanding under the Master Indenture are secured on a parity therewith;

(f) To a Person which is not an Obligated Group Member, provided that prior to the sale, lease or other disposition there is delivered to the Master Trustee a certificate of the Obligated Group Representative stating that, following the transfer, (i) the Obligated Group Members could incur one additional dollar of Long-Term Indebtedness pursuant to section (a) of “Limitations on Additional Indebtedness” described above, (ii) unless waived by the Bond Insurer, the Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available would not be less than 1.30 and would not be lower than 70% of the Debt Service Coverage Ratio without taking into account the transfer; and liquidity would be reduced to not less than 120 Days Cash On Hand;

(g) To any Person not an Obligated Group Member provided that such Property is transferred for fair market value or in return for other Property of equal or greater value and usefulness (including cash) and the Master Trustee receives an Officer’s Certificate of the Corporation certifying that such transfer was made for fair market value or in return for other Property of equal or greater value and usefulness; and

DISPOSITION OF LIQUID ASSETS

Section (d) of the Master Indenture summarized under the caption “Disposition of Liquid Assets” is modified by the Sixth Supplemental Master Indenture and replaced in its entirety to provide:

(d) if (i) the Obligated Group has at least 120 Days Cash On Hand immediately following the disposition of such Liquid Assets; and (ii) unless waived by the Bond Insurer, the Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available would not be less than 1.30 and would not be lower than 70% of the Debt Service Coverage Ratio without taking into account the transfer; or

DAYS CASH ON HAND

The section of the Master Indenture summarized under the caption “Days Cash on Hand” is modified by the Sixth Supplemental Master Indenture and replaced in its entirety to state that each Obligated Group Member covenants to maintain Unrestricted Liquid Funds such that the Obligated Group will have (1) at least 90 Days Cash On Hand on the December 31, 2005 Cash Test Date, and (2) at least 120 Days Cash On Hand on each Cash Test Date from and after June 30, 2006.

If on any Cash Test Date, the Obligated Group does not have the number of Days Cash On Hand required by the previous paragraph, the Obligated Group Representative shall promptly (and in no event more than 135 days after such Cash Test Date) retain a Consultant to make recommendations to increase the amount of Days Cash on Hand for subsequent Cash Test Dates to the level required, or, if in the opinion of the Consultant the attainment of such level is impracticable, to the highest practicable level. Such recommendations shall be set forth in a written report delivered to the Obligated Group Representative and the Master Trustee no more than 45 days after the retention of the Consultant. Each Obligated Group Member, respectively, agrees to the extent permitted by law, that it will follow the recommendations of the Consultant. So long as the Obligated Group shall retain a Consultant and shall follow the recommendations of the Consultant to the extent permitted by law, this section shall be deemed to have been complied with as of any such Cash Test Date even if the amount of Days Cash on Hand is below the required level, unless the Days Cash on Hand is below 120 for the next two immediately succeeding Cash Test Dates or that the Obligated Group has less than 60 Days Cash on Hand as of such Cash Test Date.

DEEDS OF TRUST

Upon execution and delivery of the Sixth Supplemental Master Indenture, each Obligated Group Member shall execute and deliver and cause to be recorded with the county recorder of each county within which any applicable Property is located a Deed of Trust creating a lien on all Property described in the Sixth Supplemental Master Indenture and shall, unless the Bond Insurer otherwise consents, cause to be delivered to the Master Trustee a lender’s title insurance policy in form and substance satisfactory to the Bond Insurer with respect to such deeds of trust. In the event that there are no longer any Obligations Outstanding under the Sixth Supplemental Master Indenture, the Master Trustee, upon the request of the Obligated Group Representative and payment by the Obligated Group of all expenses incident thereto, shall forthwith cause any such deed of trust to be reconveyed.

So long as the Bond Insurance Policy is in full force and effect, the provisions of the Deeds of Trust may be modified, amended or waived at any time with the prior written consent of the Bond Insurer and without the consent of the Master Trustee, the Bond Trustee for the Bonds, any holder of Obligation No. 7 or any other Obligations or any holder or owner of the Bonds or any other Related Bonds.

INSURANCE REQUIRED

The section of the Master Indenture summarized under the caption “Insurance Required” is modified by the Sixth Supplemental Master Indenture to add that any self-insurance program of the Corporation shall include the following: (i) the establishment by the Corporation of a separate segregated self-insurance fund funded in an amount determined (initially and not less frequently than annually thereafter) by an Insurance Consultant satisfactory to the Bond Insurer employing accepted actuarial techniques, and (ii) the establishment and maintenance of a claims processing and risk management program. At no time shall the amount of property and casualty insurance (including qualifying self-insurance) have a limit lower than the Outstanding principal amount of Obligations representing indebtedness insured by the Bond Insurer.

INSURANCE CONSULTANT

The section of the Master Indenture summarized under the caption “Insurance Consultant” is modified by the Sixth Supplemental Master Indenture to add that the Corporation will provide the Bond Insurer with copies of any recommendations and other reports of the Insurance Consultant.

JOINING THE OBLIGATED GROUP

Section (b) of the Master Indenture summarized under the caption “Joining the Obligated Group” is modified by the Sixth Supplemental Master Indenture to add a new subsection (3) following subsection (b)(2) as follows:

(3) the addition of such Person to the Obligated Group will not result in such any Obligated Group Member ceasing to be an organization described in Section 501(c)(3) of the Code;

Section (e) of the Master Indenture summarized under the caption “Joining the Obligated Group” is modified by the Sixth Supplemental Master Indenture and replaced in its entirety to provide for the delivery of an Officer’s Certificate to the effect that immediately upon any Person becoming an Obligated Group Member, (i) the Obligated Group will not be in default in the performance or observance of any covenant or condition to be performed or observed by it hereunder and (ii) unless waived by the Bond Insurer, the Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available (and assuming the addition of the Person to the Obligated Group at the beginning of such Fiscal Year) would not be less than 1.30 and would not be lower than 70% of the Debt Service Coverage Ratio without taking into account the addition of such Person to the Obligated Group and immediately following the addition of such Person to the Obligated Group, the Obligated Group has not less than 120 Days Cash on Hand.

The Master Indenture summarized under the caption “Joining the Obligated Group” is modified by the Sixth Supplemental Master Indenture to add a new subsection (h) that provides for delivery of a written consent of ACA to the addition of such Person to the Obligated Group, provided that the ACA Insurance is then in effect.

WITHDRAWAL FROM THE OBLIGATED GROUP

The section of the Master Indenture summarized under the caption “Withdrawal From the Obligated Group” is modified by the Sixth Supplemental Master Indenture and replaced in its entirety to provide that no Obligated Group Member may withdraw from the Obligated Group, unless such Obligated Group Member is not a Primary Obligor and the Master Trustee receives the following, in form and content satisfactory to the Master Trustee:

(a) the written consent of the Obligated Group Representative to the withdrawal of such Obligated Group Member from the Obligated Group;

(b) if all amounts due on any Related Bond which bears interest that is not includable in gross income under the Code have not been paid to the Holder thereof, an Opinion of Bond Counsel, to the effect that under then existing law such Obligated Group Member's withdrawal from the Obligated Group would not adversely affect the exemption from federal income taxation of interest payable on any such Related Bond;

(c) a written report of an Accountant stating that, upon the withdrawal of such Obligated Group Member from the Obligated Group, the condition described in subparagraph (a)(2) or (3) of "Limitations on Additional Indebtedness" above would be met for the incurrence of one additional dollar of Long-Term Indebtedness;

(d) an Officer's Certificate to the effect that, upon the withdrawal of such Obligated Group Member from the Obligated Group, (i) the Obligated Group would not be in default in the performance or observance of any covenant or condition to be performed or observed by it hereunder and (ii) unless waived by the Bond Insurer, the Debt Service Coverage Ratio of the Obligated Group for the most recent Fiscal Year for which audited financial statements are available (and assuming the withdrawal of the Person to the Obligated Group at the beginning of such Fiscal Year) would not be less than 1.30 and would not be lower than 70% of the Debt Service Coverage Ratio without taking into account the withdrawal of such Person to the Obligated Group and immediately following the withdrawal of such Person from the Obligated Group, the Obligated Group has not less than 120 Days Cash on Hand;

(e) an opinion of counsel to the effect that the addition of such Person to the Obligated Group will not result in any Obligated Group Member ceasing to be an organization described in Section 501(c)(3) of the Code; and

(f) written consent of ACA to the withdrawal of such Person to the Obligated Group, provided that the ACA Insurance is then in effect.

Notwithstanding the foregoing, the Corporation may not withdraw from the Obligated Group.

PROCEEDS OF HAZARD INSURANCE

The Master Indenture summarized under the caption "Proceeds of Hazardous Insurance" is modified by the Sixth Supplemental Master Indenture to add (a) that the Obligated Group Representative will notify the Bond Insurer of any damage or destruction to or condemnation of Property in excess of one percent (1%) of Book Value of Property, Plant and Equipment, and (b) that notwithstanding any other provision of this section, if an Obligated Group Member elects to rebuild or replace Property having an insured value of five percent (5%) or greater of the insured value of Property, Plant and Equipment, it shall, in addition to the other requirements of this section, deliver to the Master Trustee a report of a Consultant to the effect that the forecast Debt Service Coverage Ratio during the construction period and for each of the two Fiscal Years subsequent to the completion of such repair or replacement will be not less than that required under the caption "Rates and Charges" above. In the event that the Obligated Group Member shall fail to deliver such a certificate within twelve months following the occurrence of the loss, it shall apply the proceeds of insurance to the payment of Obligations unless otherwise approved in writing by the Bond Insurer.

CONSTRUCTION INSURANCE

The Master Indenture is modified by the Sixth Supplemental Master Indenture to add a new section captioned "Construction Insurance," providing that with respect to any construction project having an aggregate cost exceeding \$15,000,000 undertaken by any Obligated Group Member, such Obligated Group Member shall (i) maintain or cause to be maintained insurance coverage as is adequate to protect it and its properties and as are customary with respect to such construction project and (ii) require a performance and payment bond in an amount covering the cost of the contract, based on a guaranteed maximum price or a fixed price of such contract.

APPROVAL OF AMENDMENT BY THE BOND INSURER

The Master Indenture is modified by the Sixth Supplemental Master Indenture to add a new section captioned "Approval of Amendments by the Bond Insurer," providing that notwithstanding any other provisions of the Master Indenture regarding Supplemental Master Indentures of the Master Indenture, no supplements or amendments to the Master Indenture will be effective unless prior written consent has been obtained from the Bond Insurer.

BINDING EFFECT

The Master Indenture is modified by the Sixth Supplemental Master Indenture to replace the binding effect provision of the Master Indenture to provide that the Master Indenture will inure to the benefit of and be binding upon each Obligated Group Member, the Master Trustee and the Bond Insurer and their respective successors and assigns subject to the limitations contained in the Master Indenture.

SUMMARY OF CERTAIN PROVISIONS OF THE BOND INDENTURE

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

FUNDS

1. Expense Fund. The Bond Trustee shall establish a separate account to be known as the "Expense Fund." An initial deposit to the credit of the Expense Fund is to be made in accordance with the Bond Indenture. Amounts on deposit in the Expense Fund shall be disbursed upon receipt by the Bond Trustee of a requisition in the form attached to the Bond Indenture for the payment of expenses for any recording, trustee's and depository's fees and expenses, accounting and legal fees, financing costs (including costs of acquiring investments for the funds and escrows), 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 and the refunding of the Refunded 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 December 1, 2006, the Bond Trustee shall transfer any moneys remaining in the Expense Fund to the Project Fund and the Bond Trustee shall close the Expense Fund. Each such requisition shall be sufficient to evidence to the Bond Trustee the facts stated therein and the Bond Trustee shall have no duty to confirm the accuracy of such facts.

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

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

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

When the Project shall have been completed, the following shall be delivered to the Bond Trustee by the Corporation a Certificate of the Corporation stating the fact and date of such completion and stating that all of the costs thereof have been determined and paid (or that all of such costs have been paid less specified claims which are subject to dispute and for which a retention in the Project Fund is to be maintained in the full amount of such claims until such dispute is resolved). Upon the receipt of such certificate, the Bond Trustee shall, as directed by said Certificate of the Corporation, transfer any remaining balance in the Project Fund to the Redemption Fund. Upon such transfer and the final disbursement of any remaining funds, the Project Fund shall be closed.

3. Revenue Fund. The Authority shall establish with the Bond Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Revenue Fund." All payments upon Obligation No. 7 and all payments under the Loan Agreement, as and when received by the Bond Trustee, shall be deposited in the Revenue Fund and shall be held therein until disbursed as provided in the Bond Indenture. Pursuant to the assignment and pledge of payments upon Obligation No. 7 set forth in the granting clauses contained in the Bond Indenture, the Authority will direct the Corporation to make payments under the Loan Agreement and upon Obligation No. 7 directly to the Bond Trustee when and as the same become due and payable by the Corporation under the terms of the Loan Agreement and such Obligation No. 7.

If on or before the date any payment under the Loan Agreement or upon Obligation No. 7 pledged hereunder is due, the Bond Trustee has not received such payment, the Bond Trustee shall request the Master Trustee to give immediate telephonic notice promptly confirmed in writing to each Member and the Corporation of the nonpayment.

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

On or prior to three Business Days next preceding each Interest Payment Date, the Bond Trustee shall deposit in the Interest Fund from moneys in the Revenue Fund an amount which will be equal to the interest to become due on the Bonds on such Interest Payment Date; provided, however, that no deposit pursuant to this paragraph need be made to the extent that there is a sufficient amount already on deposit in the Interest Fund for that purpose. If sufficient funds to make the transfers described in this caption are not available in the Revenue Fund on the third Business Day preceding an Interest Payment Date, the Bond Trustee will give Immediate Notice thereof to the Corporation, promptly confirmed in writing. At the time of such notice, if the interest rate for all Interest Periods in the Interest Payment Period ending on such Interest Payment Date has not yet been determined, the Bond Trustee shall use an assumed interest

rate of the Maximum Rate for Bonds bearing interest in such a Mode for the number of days during such period that such interest rate is not yet available.

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

5. Bond Sinking Fund. The Bond Trustee shall establish and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Bond Sinking Fund." Except for income thereon which is to be transferred to other funds under the Bond Indenture or to the Rebate Fund, and except as provided in the Bond Indenture, moneys on deposit in the Bond Sinking Fund may be used only to pay principal of and to mandatorily redeem Bonds. Nothing contained in this paragraph shall limit the ability of the Bond Insurer to be paid amounts due and owing to it with respect to the Bonds as subrogee of a Bondholder.

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

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

In connection with any partial redemption or defeasance prior to maturity of the Bonds, the Bond Trustee may, at the written request of the Corporation, use any amounts on deposit in the Bond Sinking Fund (which amounts must be Eligible Moneys for Bonds bearing interest at a Daily or Weekly Mode

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

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

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

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

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

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

such drawing need be made if other moneys (including funds paid under an irrevocable surety bond) are available in the Debt Service Reserve Fund in the amount of the Debt Service Reserve Fund Requirement.

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

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

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

7. Redemption Fund. The Authority shall establish with the Bond Trustee and maintain so long as any of the Bonds are outstanding a separate account to be known as the "Redemption Fund." In the event of (i) prepayment by or on behalf of the Corporation or any other Member of amounts payable under the Loan Agreement or on Obligation No. 7, including prepayment with condemnation or insurance proceeds or proceeds of a sale consummated under threat of condemnation, or (ii) deposit with the Bond Trustee by the Corporation, any other Member or the Authority of moneys from any other source for redeeming Bonds or the purchase of Bonds for cancellation, except as otherwise provided in the Bond Indenture, such moneys shall be deposited in the Redemption Fund. Moneys on deposit in the Redemption Fund shall be used first, to make up any deficiencies existing in the Interest Fund and the Bond Sinking Fund (in the order listed) and second, if such amounts are Eligible Moneys for Bonds bearing interest at a Daily or Weekly Mode when a Liquidity Facility is in effect, for the redemption or purchase of Bonds in accordance with the provisions of the Bond Indenture.

8. Rebate Fund. Section 148(f) of the Code, as implemented by Sections 1.148-0 to 1.148-11 of the Income Tax Regulations (the "Rebate Provisions") requires that, among other requirements and with certain exceptions, the Authority pay to the United States of America the Rebate Amount owed with respect to the Bonds. The Corporation shall timely make or have made all necessary calculations of the Rebate Amount as required to comply with the requirements of the Bond Indenture and the Rebate

Provisions and shall deposit or cause the Bond Trustee to deposit into the Rebate Fund from investment earnings on moneys deposited in the other funds and accounts created hereunder, or from any other funds held by the Bond Trustee and available for such purpose, or from other moneys paid by the Corporation to the Bond Trustee for such purpose, the amount necessary to increase the balance in the Rebate Fund to the Rebate Amount. The Corporation shall annually certify in writing the Rebate Amount, if any (and if none is due, that none is due), and the calculations determining the same to the Bond Trustee, and shall instruct the Bond Trustee in writing to make from the Rebate Fund (or to the extent necessary, from other funds of the Corporation delivered to the Bond Trustee) all required payments to the United States of America of the Rebate Amount as shall be required to satisfy the Rebate Provisions, and to the extent the funds held by the Bond Trustee in the Rebate Fund are not sufficient to make payments of such Rebate Amount, the Corporation shall pay to the Bond Trustee an amount necessary to make up such deficiency. In complying with the foregoing, the Corporation may rely upon any instructions from and any Opinions of Bond Counsel, including, without limitation, a letter to be delivered by Bond Counsel to the Corporation and the Bond Trustee on the date of issuance of the Bonds, and upon any certificates, opinions or calculations prepared by certified public accountants or other consultants reasonably selected by the Corporation.

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

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

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

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

Under no circumstances whatsoever shall the Bond Trustee be liable to the Authority, the Corporation or any Bondholder for any loss of the status of interest on the Bonds as excludable from gross income for federal income tax purposes, or any claims, demands, damages, liabilities, losses, costs or expenses resulting therefrom or in any way connected therewith, resulting from a failure to comply

with Section 148(f) of the Code so long as the Bond Trustee has acted in accordance with the written directions of the Corporation, as authorized under the Bond Indenture.

INVESTMENT OF FUNDS

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

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

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

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

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

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

ARBITRAGE

The Authority covenants and agrees in the Bond Indenture that it will not take any action or fail to take any action with respect to the investment of the proceeds of any Bonds issued under the Bond Indenture or with respect to the payments derived from Obligation No. 7 and under the Loan Agreement or any other moneys regardless of source or where held which may, notwithstanding compliance with the other provisions of the Bond Indenture, the Loan Agreement and the Tax Certificate, result in constituting any Bonds “arbitrage bonds” within the meaning of such term as used in Section 148 of the Code. The Authority further covenants and agrees that it will comply with and take all actions required by the Tax Certificate.

LIQUIDITY FACILITY; SUBSTITUTE LIQUIDITY FACILITY

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

The amount available under the Liquidity Facility may be reduced if the Corporation has deposited a Substitute Liquidity Facility with the Bond Trustee in accordance with the terms of this caption or the requirements set forth in the Bond Indenture are satisfied, but only upon the receipt by the Bond Trustee of (i) a Written Request of the Corporation requesting that the Bond Trustee direct or send appropriate notice to the Liquidity Facility Provider requesting or directing that such amount be reduced and specifying the amount that shall thereafter be available under the Liquidity Facility, and (ii) the written consent of the Authority and the Bond Insurer to such reduction. The Authority shall not consent to a reduction in the Liquidity Facility to an amount less than the Required Stated Amount for the Bonds benefiting from the Liquidity Facility. Notwithstanding the foregoing, immediately after payment in full has been made on any Bond, either at Maturity, by Bond Sinking Fund payment, optional redemption or upon provision for payment as provided in the Bond Indenture, the Bond Trustee shall direct or send appropriate notice to the Liquidity Facility Provider requesting or directing that the amount available under the Liquidity Facility be reduced by an amount equal to such principal so paid plus the amount of interest provided for under the Liquidity Facility on such principal amount. No direction or consent of the Authority, the Corporation or the Bond Insurer shall be required for the Bond Trustee to take the action required by the preceding sentence.

While Bonds are bearing interest at a Daily Rate or Weekly Rate, a Substitute Liquidity Facility may become effective on any Business Day, which shall be a Substitute Liquidity Facility Date. The Corporation shall cause a draft of any Substitute Liquidity Facility in substantially final form and a commitment letter with respect thereto, together with written evidence from each Rating Agency rating the Bonds prior to the Substitute Liquidity Facility Date of the rating on the Bonds after the Substitute Liquidity Facility Date, to be delivered to the Bond Trustee, the Authority and the Bond Insurer, not less than 15 days prior to the proposed Substitute Liquidity Facility Date. On each Substitute Liquidity Facility Date the Authority, the Bond Insurer, the Bond Trustee, the Corporation and the Bond Trustee’s Agent shall also receive (i) an opinion of counsel for the Substitute Liquidity Facility Provider regarding the enforceability of the Substitute Liquidity Facility in substantially the form delivered to the Bond

Trustee upon execution and delivery of the Liquidity Facility then in effect, (ii) an Opinion of Bond Counsel to the effect that the substitution of the Liquidity Facility then in effect will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Bonds in gross income for federal income tax purposes, and (iii) the written consent of the Bond Insurer to the Substitute Liquidity Facility, which consent may not be unreasonably withheld.

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

On each Substitute Liquidity Facility Date the Bonds shall be subject to mandatory purchase pursuant to the Bond Indenture. If any draw on a Liquidity Facility is necessary on the Substitute Liquidity Facility Date, the Bond Trustee shall draw on the prior Liquidity Facility.

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

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

LIQUIDITY FACILITY NOT REQUIRED IN CERTAIN CIRCUMSTANCES

Notwithstanding the provisions of the Bond Indenture and the Loan Agreement, the Corporation will not be required to provide a Liquidity Facility for Bonds bearing interest at the Daily Rate or Weekly Rate if, prior to the expiration or termination of the Liquidity Facility then in effect, there is delivered to the Authority, the Bond Insurer, the Bond Trustee and the Bond Trustee's Agent (i) an Opinion of Bond Counsel to the effect that the expiration or termination of the Liquidity Facility then in effect will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in the inclusion of interest on the Bonds in gross income for federal income tax purposes, and (ii) written evidence from each Rating Agency then maintaining a rating on the Bonds that the short-term rating on the Bonds bearing interest at a Daily Rate or Weekly Rate following the expiration or termination of the Liquidity Facility will not be reduced or withdrawn from the short-term rating on the Bonds immediately prior to such expiration or termination.

Upon satisfaction of the requirements described in the paragraph above, (i) the Bond Trustee, upon receipt of the Written Request of the Corporation and the written consent of the Authority and the Bond Insurer, shall direct or send appropriate notice to the Liquidity Facility Provider requesting or directing the cancellation of the Liquidity Facility then in effect on the Expiration Date requested by the Corporation in such Written Request, which Expiration Date may not be less than 30 days, or such longer period as is required by a Liquidity Facility Agreement for its termination at the request of the Corporation, from the date the Bond Trustee receives such Written Request, and (ii) all tendered Bonds may be remarketed by the Remarketing Agent pursuant to the Remarketing Agreement without the benefit of a Liquidity Facility until such time, if any, as the Bonds are thereafter entitled to the benefits of a Liquidity Facility pursuant to the provisions of the Bond Indenture, but only if there is delivered to the Authority, the Corporation, the Bond Insurer, the Bond Trustee, the Bond Trustee's Agent and the Remarketing Agent an Opinion of Bond Counsel to the effect that the cancellation of the Liquidity Facility will not, in and of itself, adversely affect the validity or enforceability of the Bonds or result in

the inclusion of interest on the Bonds in gross income for federal income tax purposes. If at any time no Liquidity Facility is required on the Bonds, the Bonds shall be subject to mandatory purchase on the Business Day prior to the Expiration Date pursuant to the Bond Indenture.

SUPPLEMENTAL BOND INDENTURES

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

- (a) to cure any ambiguity or formal defect or omission in the Bond Indenture;
- (b) to grant to or confer upon the Bond Trustee for the benefit of the Bondholders any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Bondholders and the Bond Trustee, or either of them;
- (c) to assign and pledge under the Bond Indenture additional revenues, properties or collateral or, with the consent of the Bond Insurer, to provide for the use of a Liquidity Facility including during any Mode with respect to which such a Facility is not required under the terms of the Bond Indenture;
- (d) to evidence the appointment of a separate co-bond trustee or the succession of a new bond trustee under the Bond Indenture;
- (e) to permit the qualification of the Bond Indenture under the Trust Indenture Act of 1939, as then amended, or any similar federal statute hereafter in effect or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;
- (f) to permit the issuance of coupon bonds under the Bond Indenture and to permit the exchange of Bonds from registered form to coupon form and vice versa;
- (g) to provide for the refunding or advance refunding of any Bonds, including providing for the establishment and administration of an escrow fund and the taking of related action in connection therewith;
- (h) to permit continued compliance with the Tax Certificate; and
- (i) with the written consent of the Bond Insurer and the Liquidity Facility Provider, to make any other change that, in the judgment of the Bond Trustee, does not materially adversely affect the rights of any Bondholders.

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

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

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

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

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

During an Auction Period, with the prior written consent of the Bond Insurer, the provisions contained in the Bond Indenture, including, without limitation, the definitions of All-Hold Rate, Interest Payment Date and Auction Rate may be amended pursuant to the Bond Indenture. If the amendment is pursuant to this caption, and on the first Auction Date occurring at least 20 days after the date on which the Bond Trustee mailed notice of such proposed amendment to the holders of the Outstanding Bonds affected by such amendment, as required by such provisions, (i) Sufficient Clearing Bids have been received or all of the Bonds are subject to Submitted Hold Orders, and (ii) there is delivered to the Authority and the Bond Trustee a Favorable Opinion of Bond Counsel with respect to such amendment, the proposed amendment shall be deemed to have been consented to by the holders of all Outstanding Bonds affected by such amendment.

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

DEFAULTS AND REMEDIES

Each of the following events is an “event of default” under the Bond Indenture:

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

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

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

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

(e) any proceeding shall be instituted, with the consent or acquiescence of the Authority, or any plan shall be entered into by the Authority, for the purpose of effecting a composition between the Authority and its creditors or for the purpose of adjusting the claims of such creditors pursuant to any federal or state statute now or hereafter enacted, if the claims of such creditors are under any circumstances payable from any part or all of the trust estate, including the revenues and other moneys derived by the Authority under Obligation No. 7 or the Loan Agreement; or

(f) the Authority (1) files a petition in bankruptcy or under Title 11 of the United States Code, as amended, (2) makes an assignment for the benefit of its creditors, (3) consents to the appointment of a receiver, custodian or trustee for itself or for the whole or any part of the trust estate, including the revenues and other moneys derived by the Authority under Obligation No. 7 or the Loan Agreement, or (4) is generally not paying its debts as such debts become due; or

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

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

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

(j) any event of default as defined in the Loan Agreement or in the Master Indenture shall occur as a result of which the Authority or the Bond Trustee is entitled under the Loan Agreement to request that the Master Trustee declare Obligation No. 7 to be immediately due and payable or such event of default shall be continuing from and after the date on which the Master Trustee is entitled under the Master Indenture to declare any Obligation immediately due and payable, or the Master Trustee shall declare any Obligation immediately due and payable; or

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

days after written notice thereof from the Bond Trustee to the Corporation, the Corporation and the Bond Insurer or such later date as shall be agreed to in writing by the Bond Insurer; or

(l) the Authority or the Corporation shall default in the performance of any covenant, condition, agreement or provision of the Certificate as to Tax, Arbitrage and Other Matters signed by the Authority concurrently with the issuance of the Bonds, or the Corporation shall default in the performance of any covenant, condition, agreement or provision of the Tax Certificate, and such default shall continue for the period of 30 days after written notice specifying such default and requiring the same to be remedied shall have been given to the party in default and the Corporation by the other party; provided that if such default cannot with due diligence be wholly cured within 30 days but can be wholly cured and the prior written consent of the Bond Insurer is given, the failure of the Authority or the Corporation to remedy such default within such 30-day period shall not constitute a default under the Bond Indenture if any of the foregoing shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch.

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

The Bond Trustee shall give the Corporation Immediate Notice of any failure of the Corporation to pay any installment of interest, principal or premium on Obligation No. 7 or any other payment of principal, premium, if any, and interest required by the Loan Agreement when the same shall become due and payable, whether upon a scheduled Interest Payment Date, at Maturity, upon any date fixed for prepayment, by acceleration or otherwise.

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

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

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

REMEDIES; RIGHTS OF BONDHOLDERS

Upon the occurrence of any Event of Default under the Bond Indenture, the Bond Trustee may, with the written consent of the Bond Insurer and without any action on the part of the Bondholders, and shall, upon being indemnified to its satisfaction, at the direction of the Bond Insurer pursue any available remedy, including a suit at law or in equity to: (a) enforce the payment of the principal of, premium, if any, and interest on the Bonds outstanding under the Bond Indenture, (b) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the owners under, and require the Authority or the Corporation to carry out any agreements with or for the benefit of the owners of Bonds and to perform its or their duties under, the Act, Obligation No. 7, the Loan Agreement and the Bond Indenture, provided that any such remedy may be taken only to the extent permitted under the applicable provisions of the Loan Agreement or the Bond Indenture, as the case may be; (c) bring suit upon the Bonds; or (d) by action or suit in equity to enjoin any acts or things which may be unlawful or in violation of the rights of the owners of Bonds.

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

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

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

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

When the Bond Trustee incurs expenses or renders services after the occurrence of an act of bankruptcy with respect to the Authority, the Corporation or any Member of the Obligated Group, such expenses and the compensation for such services are intended to constitute expenses of administration

under any federal or state bankruptcy, insolvency, arrangement, moratorium, reorganization or other debtor relief law.

DIRECTION OF PROCEEDINGS BY BONDHOLDERS

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

WAIVER OF EVENTS OF DEFAULT

The Bond Trustee may, with the written consent of the Bond Insurer, in its discretion without any action on the part of the Bondholders, and shall, upon the direction of the Bond Insurer, waive any Event of Default under the Bond Indenture and its consequences and rescind any declaration of maturity of principal, and shall do so upon being indemnified to its satisfaction and receipt of the written request of the holders, with the written consent of the Bond Insurer, of (1) at least a majority in aggregate principal amount of all the Bonds outstanding in respect of which default in the payment of principal and/or interest exists, or (2) at least a majority in aggregate principal amount of all the Bonds outstanding in the case of any other event of default; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal of any outstanding Bonds when due whether by mandatory redemption through the Bond Sinking Fund, at the dates of Maturity specified therein or otherwise other than principal due upon an acceleration of the Bonds or (b) any default in the payment when due of the interest on any such Bonds, other than accrued interest due solely as a result of an acceleration of the Bonds, unless prior to such waiver or rescission all arrears of interest, with interest thereon (to the extent permitted by law) at the rate borne by the Bonds in respect of which such default shall have occurred on overdue installments of interest or all arrears of payments of principal when due, as the case may be, and all fees and expenses of the Bond Trustee, the Authority and any Paying Agent in connection with such default shall have been paid or provided for, including, but not limited to, the reasonable fees of their counsel.

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

APPLICATION OF MONEYS

All moneys received by the Bond Trustee or by any receiver pursuant to any right given or action taken under the provisions of the Bond Indenture (other than payments made by the Bond Insurer to pay principal and/or interest on the Bonds which shall be applied in accordance with the Bond Indenture) and any other funds then held shall, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the fees of, and the expenses, liabilities and advances incurred or made by the Bond Trustee at the request or with the concurrence of the Bond Trustee, be deposited in the Revenue Fund and all moneys (other than moneys for the payment of Bonds which have previously

matured or otherwise become payable prior to such Event of Default or for the payment of interest which became due prior to such Event of Default) in the Funds maintained by the Bond Trustee under the Bond Indenture shall be applied as follows:

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

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

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

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

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

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

FIRST: To the payment of the principal (including unpaid premium, if any) and interest then due and unpaid upon the Bonds, without preference or priority of principal or interest over the other, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the Persons entitled thereto without any discrimination or privilege; and

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

THIRD: To the payment of amounts, if any, payable pursuant to the terms of the Bond Indenture.

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

Whenever moneys are to be applied by the Bond Trustee pursuant to the provisions of Bond Indenture summarized under this caption, such moneys shall be applied by it at such times, and from time to time, as the Bond Trustee shall determine, having due regard for the amount of such moneys available

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

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

REMOVAL OF THE BOND TRUSTEE

Subject to the Bond Indenture, the Bond Trustee may be removed at any time, by an instrument or concurrent instruments in writing delivered to the Bond Trustee, the Corporation, the Bond Insurer, the Liquidity Facility Provider and the Authority, and signed by the owners of a majority in aggregate principal amount of Bonds then outstanding and consented to in writing by the Bond Insurer. So long as no Event of Default has occurred and is continuing under the Bond Indenture or the Loan Agreement, the Bond Trustee may be removed for cause (including but not limited to maintaining non-competitive fees) at any time by an instrument or concurrent instruments in writing signed by the Corporation consented to in writing by the Authority and the Bond Insurer and delivered to the Bond Trustee. The foregoing notwithstanding, the Bond Trustee may not be removed by the Corporation unless written notice of the delivery of such instrument or instruments signed by the Authority is mailed to the owners of all Bonds outstanding under the Bond Indenture, which notice indicates the Bond Trustee will be removed and replaced by the successor trustee named in such notice, such removal and replacement to become effective on the 90th day next succeeding the date of such notice, unless the owners of not less than ten percent (10%) in aggregate principal amount of such Bonds then outstanding under the Bond Indenture shall object in writing to such removal and replacement. Such notice shall be mailed by first class mail postage prepaid to the owners of all such Bonds then outstanding at the address of such owners then shown on the Bond Register. Prior to an Event of Default the Bond Insurer has the right to remove the Bond Trustee for cause, and after an Event of Default, the Bond Insurer has the right to remove the remove the Bond Trustee for any reason.

BOND TRUSTEE AS HOLDER OF OBLIGATION; CONSENT OF BOND INSURANCE POLICY PROVIDER; INSURER'S RIGHTS

The Bond Trustee shall be considered the holder of Obligation No. 7 for the purpose of giving consents, approvals and notices under the Master Indenture. So long as the Bond Insurance Policy is in effect and the Bond Insurer has not lost its rights pursuant to the Bond Indenture, the Bond Insurer shall have the right to direct the Bond Trustee, as holder of Obligation No. 7, to take any action or give any consent, approval or notice under the provisions of the Master Indenture.

The Bond Insurer shall have the right to consent to amendments to the Bond Indenture and the Loan Agreement without the consent of the owners of the Bonds as and to the extent set forth in the Bond Indenture. Any action requiring consent of the Bondholders shall be deemed to also require the prior written consent of the Bond Insurer. Any and all notices required to be delivered to the Bondholders shall be delivered to the Bond Insurer.

DEFEASANCE

If the Authority shall pay or provide for the payment of the entire indebtedness on all Bonds (including for the purposes of the provisions of the Bond Indenture summarized under this caption, Bonds held by the Corporation) in any one or more of the following ways:

(a) by paying or causing to be paid the principal of (including redemption premium, if any) and interest on all Bonds outstanding, as and when the same become due and payable;

(b) by depositing with the Bond Trustee, in trust, at or before maturity, moneys (which shall be Eligible Moneys (other than moneys described in subparagraphs (b) and (c) of the definition of Eligible Moneys) for payment of Bonds bearing interest at the Daily Rate of the Weekly Rate, or for Liquidity Facility Bonds), in an amount sufficient to pay or redeem (when redeemable) all Bonds outstanding (including the payment of premium, if any, and interest payable on such Bonds to the maturity or redemption date thereof), provided that such moneys, if invested, shall be invested in United States Government Obligations which are not prepayable or callable prior to, but mature on a date on or prior to the date the moneys therefrom are anticipated to be required in an amount, without consideration of any income or increment to accrue thereon, sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Bonds outstanding at or before their respective maturity dates; it being understood that the investment income on such United States Government Obligations may be used for any other purpose under the Act;

(c) by delivering to the Bond Trustee, for cancellation by it, all Bonds outstanding; or

(d) by depositing with the Bond Trustee, in trust, United States Government Obligations which are not prepayable or callable prior to, but mature on a date on or prior to the date the moneys therefrom are anticipated to be required (purchased with Eligible Moneys (other than moneys described in subparagraphs (b) and (c) of the definition of Eligible Moneys) for payment of Bonds bearing interest at the Daily Rate or the Weekly Rate, or for Liquidity Facility Bonds) in such amount as the Bond Trustee shall determine will, together with the income or increment to accrue thereon, without consideration of any reinvestment thereof, and any uninvested cash, be fully sufficient to pay or redeem (when redeemable) and discharge the indebtedness on all Bonds outstanding at or before their respective maturity dates; provided that the Bond Trustee shall be permitted to rely upon an accountant's verification report as conclusive evidence of the sufficiency of the amount of such deposit;

and if the Authority and the Corporation shall pay or cause to be paid all other sums payable under the Bond Indenture by the Authority, including any amounts due to or to become due to the Bond Insurer, the Bond Indenture and the estate and rights granted under the Bond Indenture shall cease, determine, and become null and void, and thereupon the Bond Trustee shall, upon Written Request of the Authority, and upon receipt by the Bond Trustee of an Officer's Certificate of the Corporation and an opinion of Independent Counsel, each addressed to the Authority, the Bond Trustee and the Bond Insurer, each stating that in the opinion of the signers all conditions precedent to the satisfaction and discharge of the Bond Indenture have been complied with, forthwith execute proper instruments acknowledging satisfaction of and discharging the Bond Indenture, the Loan Agreement and all financing statements filed in connection therewith, other than the liens on and financing statements filed in connection with such

liens on the United States Government Obligations deposited. The provisions of subparagraphs (b) and (d) above shall only apply if (x) (A) such Bond matures or is called for redemption prior to the next date upon which such Bond is subject to purchase pursuant to the Bond Indenture or (B) if such Bond bears interest at a Daily Rate or Weekly Rate, the Bond Trustee, the Bond Insurer and the Authority receive evidence satisfactory to them that the moneys on deposit in the escrow established to advance refund such Bonds are in an amount sufficient to pay the principal of and interest on such Bonds at the Maximum Interest Rate, on any date such Bonds may be tendered during the period prior to payment in full of principal, premium, if any, and interest payable on such Bonds, in which case the tendered Bonds shall be purchased with moneys on deposit in the escrow and shall be canceled, which evidence shall be accompanied by a written notice from each Rating Agency then maintaining a rating on the Bonds to be refunded that the rating on such Bonds will not be withdrawn, suspended or reduced from the rating borne by such Bonds immediately prior to such refunding, and (y) the Corporation waives, to the satisfaction of the Bond Trustee, its right to convert the method for determining the interest rate borne by such Bond pursuant to the Bond Indenture.

The satisfaction and discharge of the Bond Indenture shall be without prejudice to the rights of the Bond Trustee to charge and be reimbursed by the Authority and the Corporation for any expenditures which it may thereafter incur in connection herewith.

Any moneys, funds, securities, or other property remaining on deposit in the Revenue Fund, Interest Fund, Bond Sinking Fund, Debt Service Reserve Fund, Redemption Fund, Expense Fund or in any other fund or investment under the Bond Indenture (other than said United States Government Obligations or other moneys deposited in trust as above provided and other than amounts on deposit in the Rebate Fund) shall, upon the full satisfaction of the Bond Indenture, forthwith be transferred, paid over and distributed to the Corporation immediately preceding such satisfaction, as their respective interests may appear.

Upon compliance with the Bond Indenture, the Authority, the Corporation or any other Member may at any time surrender to the Bond Trustee for cancellation by it any Bonds previously authenticated and delivered, which the Authority or the Members of the Obligated Group may have acquired in any manner whatsoever, and such Bonds, upon such surrender and cancellation, shall be deemed to be paid and retired.

If the Authority shall pay or provide for the payment of the Bonds as described above, the Bond Trustee shall give written notice of such payment or provision for payment to the Bond Insurer. In addition, prior to any provision for payment of any portion of the Bonds pursuant to the Bond Indenture, the Bond Insurer shall have consented to any investment agreements, hedge agreement, purchase and resale agreement or agreements providing for the forward purchase of Government Obligations which will be deposited with the Bond Trustee.

In addition, if any Bonds are defeased pursuant to subparagraph (b) or (d) above, the Corporation shall also deliver or cause to be delivered the following to the Bond Trustee and the Bond Insurer:

- (i) report of an independent firm of nationally recognized certified public accountants or such other accountant as shall be acceptable to the Bond Insurer verifying the sufficiency of the escrow established to pay the Bonds in full on the maturity or redemption date (a "Verification");
- (ii) an escrow deposit agreement (which shall be acceptable in form and substance to the Bond Insurer);

(iii) an opinion of Bond Counsel to the effect that the Bonds are no longer “Outstanding” under the Bond Indenture; and

(iv) a certificate of discharge of the Bond Trustee with respect to the Bonds.

Each Verification and opinion of Bond Counsel shall be acceptable in form and substance, and addressed, to the Authority, the Bond Trustee and the Bond Insurer.

Drafts of the documents referred to in (i), (ii), (iii) and (iv) above shall be delivered to the Bond Insurer for its approval not less than five Business Days prior to the date of the establishment of such escrow.

PAYMENT UNDER THE BOND INSURANCE POLICY

The Bond Trustee shall not make a claim for payment on the Bond Insurance Policy until any and all funds held pursuant to this Bond Indenture and available for such purpose have been fully drawn to pay principal and interest on the Bonds. As long as the Bond Insurance Policy shall be in full force and effect, the Bond Trustee agrees to comply with the following provisions:

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

(b) The Bond Trustee shall, after giving notice to the Insurance Trustee as provided in subparagraph (a) above, make available to the Bond Insurer and the Insurance Trustee, the registration books of the Authority maintained by the Bond Trustee, and all records relating to the funds maintained under this Bond Indenture.

(c) The Bond Trustee shall provide the Bond Insurer and the Insurance Trustee with a list of Holders of Bonds entitled to receive principal or interest payments from the Bond Insurer under the terms of the Bond Insurance Policy, and shall make arrangements with the Insurance Trustee (i) to mail checks or drafts to the registered owners of Bonds entitled to receive full or partial interest payments from the Bond Insurer and (ii) to pay principal upon Bonds surrendered to the Insurance Trustee by the Holders of Bonds entitled to receive full or partial principal payments from the Bond Insurer.

(d) The Bond Trustee shall at the time it provides notice to the Insurance Trustee pursuant to (a) above, notify Holders of Bonds entitled to receive the payment of principal or interest thereon from the Bond Insurer (i) as to the fact of such entitlement, (ii) that the Bond Insurer will remit to them all or part of the interest payments next coming due upon proof of the Holder’s entitlement to interest payments and delivery to the Insurance Trustee, in form satisfactory to the Insurance Trustee as determined by the Bond Insurer, of an appropriate assignment of the Holder’s right to payment, (iii) that should they be entitled to receive full payment of principal from the Bond Insurer, they must surrender their Bonds (along with an appropriate instrument of assignment in form satisfactory to the Bond Insurer to permit ownership of such Bonds to be registered in the name of the Bond Insurer) for payment to the Insurance Trustee, and not the Bond Trustee and (iv) that should they be entitled to receive partial payment of principal from the Bond Insurer, they must surrender their Bonds for payment thereon first to the Bond

Trustee, who shall note on such Bonds the portion of the principal paid by the Bond Trustee and then, along with an appropriate instrument of assignment in form satisfactory to the Bond Insurer, to the Insurance Trustee, which will then pay the unpaid portion of principal.

(e) In the event that the Bond Trustee has notice that any payment of principal of or interest on a Bond which has become due for payment and which is made to a Holder by or on behalf of the Authority has been deemed a preferential transfer and theretofore recovered from its Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with the final, nonappealable order of a court having competent jurisdiction, the Bond Trustee shall, at the time the Insurance Trustee is notified pursuant to (a) above, notify all Holders that in the event that any Holder's payment is so recovered, such Holder will be entitled to payment from the Bond Insurer to the extent of such recovery if sufficient funds are not otherwise available, and the Bond Trustee shall furnish to the Insurance Trustee and the Bond Insurer its records evidencing the payments of principal of and interest on the Bonds which have been made by the Bond Trustee and subsequently recovered from Holders and the dates on which such payments are made.

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

RIGHTS OF THE BOND INSURER

Anything contained in the Bond Indenture or in the Bonds to the contrary notwithstanding, the existence of all rights given to the Bond Insurer under the Bond Indenture with respect to the giving of consents, approvals, notices or the direction of proceedings are expressly conditioned upon its timely and full performance of the Bond Insurance Policy. Any such rights shall not apply if at any time (a) there are no Bonds outstanding, (b) the Bond Insurer is in payment default under the Bond Insurance Policy, (c) the Bond Insurer has been declared insolvent or bankrupt by a court of competent jurisdiction, an order or decree shall have been entered appointing a receiver, receivers, custodian or custodians for any of its assets or revenues, or any proceeding shall be instituted with the consent or acquiescence of the Bond Insurer or any plan shall be entered into by the Bond Insurer for the purpose of effecting a composition between the Bond Insurer and its creditors or for the purpose of adjusting the claims of such creditors, (d) the Bond Insurer makes any assignment for the benefit of its creditors, (e) the Bond Insurer is generally not paying its debts as such debts become due, (f) the Bond Insurer has filed a petition in bankruptcy or under Title 11 of the United States Code, as amended, or (g) the Bond Insurance Policy has been determined to be void or unenforceable by final judgment of a court of competent jurisdiction, (or) an action by the Bond Insurer causes an event of default under the Reimbursement Agreement which permits the Liquidity Facility Provider immediately to terminate the Liquidity Facility; provided that the terms of the Bond Indenture summarized under this caption shall not in any way limit or affect the rights of the Bond Insurer as a Bondholder, as subrogee of a Bondholder or as assignee of a Bondholder or to otherwise be reimbursed and indemnified for its costs and expenses and other payment on or in connection with the Bonds or the Bond Insurance Policy either by operation of law or at equity or by contract.

The rights granted to the Bond Insurer under the Bond Indenture, the Loan Agreement and the Master Indenture to request, consent to or direct any action are rights granted to the Bond Insurer in consideration of its issuance of the Bond Insurance Policy. Any exercise by the Bond Insurer of such rights is merely an exercise of the Bond Insurer's contractual rights and shall not be construed or deemed to be taken for the benefit or on behalf of the Bondholders nor does such action evidence any position of the Bond Insurer, positive or negative, as to whether Bondholder consent is required in addition to consent of the Bond Insurer.

In determining whether any amendment, consent or other action to be taken, or any failure to act, under the Bond Indenture would adversely affect the security for the Bonds or the rights of the Bondholders, the Bond Trustee shall consider the effect of any such amendment, consent, action or inaction as if there were no Bond Insurance Policy.

SUMMARY OF CERTAIN PROVISIONS OF THE LOAN AGREEMENT

REPRESENTATIONS

The Corporation represents in the Loan Agreement that it is a nonprofit public benefit corporation duly incorporated under the laws of the State, is in good standing and is duly authorized to conduct its business in the State and the Corporation has full power under all applicable laws and its articles of incorporation and By-laws to create, issue, enter into, execute and deliver, as applicable, the Master Indenture, Obligation No. 7, the Official Statement, the Tax Certificate, the Sixth Supplemental Master Indenture, and the Loan Agreement. In addition, the Corporation represents in the Loan Agreement that it and each Obligated Group Member (i) is a Tax-Exempt Organization, (ii) has each received a letter from the Internal Revenue Service to the foregoing effect, which letter has not been modified, limited or revoked, (iii) is in compliance with all the terms, conditions and limitations (if any) contained in such letter, it being specifically represented by them that the facts and circumstances which form the basis of such letter continue to exist, (v) is in compliance with all laws and regulations applicable to its status under the Code, and (v) is therefore exempt from federal income taxes under Section 501(a) of the Code.

ASSIGNMENT OF RIGHTS UNDER THE LOAN AGREEMENT

The Corporation acknowledges and consents to the pledge and assignment of the Loan Agreement (excluding Unassigned Rights), Obligation No. 7 and payments to be made under the Loan Agreement and thereunder, and of the Authority's rights under the Loan Agreement (excluding Unassigned Rights) to the Bond Trustee pursuant to the Bond Indenture to secure payment of the Bonds and agrees that the Bond Trustee may, on behalf of the owners of the Bonds, enforce the rights, remedies and privileges granted to the Authority under the Loan Agreement, other than the Unassigned Rights.

The Corporation also acknowledges that subject to the provisions of the Bond Indenture summarized under the caption "Bond Trustee as Holder of Obligation; Consent of Bond Insurance Policy Provider; Insurer's Rights," the Bond Insurer is granted the right to direct the Bond Trustee's actions as holder of Obligation No. 7.

PAYMENTS UNDER THE LOAN AGREEMENT

Under the terms of the Loan Agreement, the Corporation agrees that the principal of, premium, if any, and interest on the Bonds shall be made payable in accordance with the provisions of the Bond Indenture and the Loan Agreement. The Corporation further agrees that the Loan Agreement, Obligation No. 7 and payments to be made thereunder (excluding Unassigned Rights) and thereon shall be assigned

and pledged to the Bond Trustee to secure the payment of the Bonds. The foregoing notwithstanding, the Corporation agrees that the moneys and securities, if any, on deposit in the Rebate Fund and the Purchase Fund are not part of the “trust estate” and are not available to make payments of principal, premium, if any, and interest on the Bonds.

INDEMNIFICATION OF THE AUTHORITY AND THE BOND TRUSTEE

The Corporation agrees to pay, and to protect, indemnify and save the Authority and its members, the Association of Bay Area Governments and its members, the Bond Trustee, the Master Trustee and each of their respective officers, governing members, directors, officials, employees, attorneys and agents harmless from and against, any and all liabilities, losses, damages, tax penalties, costs and expenses incurred by them, all as more fully described in the Loan Agreement.

USE OF PROPERTY

The Corporation agrees to use, and shall cause each of the other Obligated Group Members to use, its senior residential and care Facilities primarily as revenue producing facilities and for related activities and only in furtherance of its lawful corporate purposes. The Corporation further covenants and agrees to operate, and shall cause the other Obligated Group Members to operate, so as not to discriminate on a legally impermissible basis.

The Corporation further agrees that it will not use or permit to be used, and that it will cause the other Obligated Group Members not to use or permit to be used, any of its Bond Financed Property (i) primarily for sectarian instruction or study or as a place of devotional activities or religious worship or as a facility used primarily in connection with any part of the program of a school or department of divinity for any religious denomination or the training of ministers, priests, nuns, rabbis or other similar persons in the field of religion, or (ii) in a manner which is prohibited by the establishment of religion clause of the First Amendment to the Constitution of the United States of America and the decisions of the United States Supreme Court interpreting the same or by any comparable provisions of the Constitution of the State and the decisions in the Supreme Court of the State interpreting the same.

The Corporation will permit and will cause the other Obligated Group Members to permit, the Authority, but the Authority shall not be obligated, to make inspections of any of its Property to determine compliance with the two preceding paragraphs. The provisions of this paragraph and the immediately preceding paragraph shall remain in full force and effect notwithstanding the payment of the Bonds and all amounts due and owing hereunder and under Obligation No. 7 and the termination of the Bond Indenture and this Loan Agreement.

The covenants and agreements contained summarized under this caption need not be observed or may be changed if the Bond Trustee and the Corporation receive an Opinion of Bond Counsel to the effect that such nonobservance or change will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes or the validity of the Bonds.

INVESTMENT OF FUNDS; COMPLIANCE WITH TAX REQUIREMENTS

The Corporation covenants and agrees that moneys on deposit in any Fund under the Bond Indenture shall at all times be invested by the Bond Trustee in Qualified Investments and that the Corporation will take all actions necessary, including without limitation providing the Bond Trustee with, or causing the Bond Trustee to receive, all necessary directions in writing to assure that such moneys are continuously invested in accordance with the provisions of the Bond Indenture and the Tax Certificate. In the absence of any direction by the Corporation, moneys on deposit in any Fund under the Bond

Indenture shall not be invested. The Bond Trustee is hereby authorized to trade with itself in the purchase and sale of securities as provided in the Bond Indenture until otherwise directed by the Corporation in an Officer's Certificate.

The Authority covenants to and for the benefit of the purchasers and owners of the Bonds from time to time outstanding that so long as any of the Bonds remain outstanding, it will not (i) knowingly use or permit the use of moneys on deposit in any fund or account in connection with the Bonds, whether or not such moneys were derived from the proceeds of the sale of the Bonds or from any other sources, (ii) direct the Bond Trustee to invest any funds held by it under the Bond Indenture, or (iii) take any other action or approve any other action, that directly or indirectly would cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code, a "hedge bond" within the meaning of Section 149 of the Code, or "federally guaranteed" within the meaning of Section 149(b) of the Code; and that it will observe and not violate the requirements of Section 148 of the Code. Without limiting the generality of the foregoing, the Authority covenants that not more than fifty percent (50%) of the proceeds of the Bonds will be invested in a guaranteed investment contract with a term of four (4) years or more, or in another form of nonpurpose investment (within the meaning of Section 148(f)(6)(A) of the Code) having a substantially guaranteed yield for four (4) years or more.

In addition to the foregoing, the Authority covenants and agrees, for the benefit of the owners from time to time of the Bonds, that:

(i) it will not take any action, or omit to take any action or permit any action that is within its control to be taken or omitted, the result of which would cause or be likely to cause the interest payable with respect to any Bonds not to be excluded from gross income for federal income tax purposes;

(ii) it will comply with the requirements applicable to it contained in Section 103 and Part IV of Subchapter B of Chapter 1 of Subtitle A of the Code to the extent necessary to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes;

(iii) it will refrain from taking any action that would cause the Bonds, or any of them, not to be classified as "qualified bonds" under Section 141(e) of the Code; and

(iv) it shall complete and file Form 8038, Information Return for Tax-Exempt Private Activity Bond Issues, with respect to the Bonds, within the time period required by Section 149(e) of the Code and take any other steps necessary to comply with the information reporting requirement imposed by that section of the Code.

The Bond Trustee covenants that it will make investments of money deposited with it in any Fund in connection with the Bonds only in accordance with the terms hereof and with written directions of the Corporation and that it will make all payments to the United States of America to the extent moneys are available therefor in Funds held in accordance with the terms of Section 408 of this Bond Indenture.

The Corporation further covenants that neither it nor any "related person" to it, as defined in Section 144(a)(3) of the Code, shall purchase obligations of the Authority in an amount related to the amount of Obligation No. 7 delivered in connection with the transaction contemplated by the Loan Agreement.

CORPORATION'S OBLIGATIONS UNCONDITIONAL

The Authority and the Corporation agree that the Corporation shall bear all risk of damage, destruction or loss of title in whole or in part to its Property, or any part thereof, including without

limitation any loss, complete or partial, or interruption in the use, occupancy or operation of such Property, or any manner or thing which for any reason interferes with, prevents or renders burdensome, the use or occupancy of its Property or the compliance by the Corporation with any of the terms of the Loan Agreement. In furtherance of the foregoing, but without limiting any of the other provisions of the Loan Agreement, the Corporation agrees that its obligations to pay the principal, premium, if any, and interest owing under the Loan Agreement, to pay the other sums provided for in the Loan Agreement and to perform and observe its other agreements contained in the Loan Agreement shall be absolute and unconditional and that the Corporation shall not be entitled to any abatement or diminution thereof nor to any termination of the Loan Agreement for any reason whatsoever. Under no circumstances shall payments on the Bonds made pursuant to payments by the Bond Insurer under the Bond Insurance Policy diminish, abate or otherwise discharge the obligations of the Corporation under the Loan Agreement or upon Obligation No. 7.

EXCHANGE OF BONDS

In the event the Act or the Authority created thereunder is determined to be unconstitutional under the laws of the State or under the laws of the United States of America, and as a result thereof, the Bonds issued by the Authority are declared to be invalid and unenforceable, and if as a result thereof the obligation of the Corporation to make payments on Obligation No. 7 is determined to be unenforceable, then the Corporation agrees that it will issue its own bonds (the interest on which may not be exempt from federal income tax) in exchange for an amount of Bonds equal to the then outstanding Bonds, principal amount for principal amount, having the same rates of interest, maturity, redemption provisions and prepayment provisions as are then applicable to the Bonds being exchanged. The bonds to be issued by the Corporation will be issued under an indenture having substantially the same terms and provisions as the Bond Indenture and the Loan Agreement and such bonds of the Corporation will be issued thereunder in exchange for an amount of Bonds equal to the Bonds surrendered by the registered owners thereof. Notice of any such exchange shall be given as provided for redemption of the Bonds under the Bond Indenture and the expenses of such exchange, including the printing of the bonds and other reasonable expenses in connection therewith, shall be borne by the Corporation.

DISCHARGE OF ORDERS

The Corporation covenants to cause any order, writ or warrant of attachment, garnishment, execution, replevin or similar process filed against any part of the funds or accounts held by the Bond Trustee under the Bond Indenture to be discharged, vacated, bonded or stayed within 90 days after such filing (which 90-day period shall be extended for so long as the Corporation is contesting such process in good faith), but, notwithstanding the foregoing, in any event not later than five days prior to any proposed execution or enforcement with respect to such filing or any transfer of moneys or investments pursuant to such filing.

DEPOSITS TO THE DEBT SERVICE RESERVE FUND

The Corporation agrees to deposit into the Debt Service Reserve Fund an amount (which may consist of cash and/or the Qualified Investments permitted under the Bond Indenture) or a letter of credit or a surety bond policy (with the consent of the Bond Insurer) sufficient to cause the amount in the Debt Service Reserve Fund to equal to the Debt Service Reserve Fund Requirement as required under the Bond Indenture.

LIQUIDITY FACILITY; SUBSTITUTE LIQUIDITY FACILITY

While any Bonds bear interest at the Daily Rate or the Weekly Rate, the Corporation shall furnish a Liquidity Facility (or, if a Liquidity Facility is then in existence, a Substitute Liquidity Facility in substitution for the Liquidity Facility then in effect if permitted by the Liquidity Facility then in effect) to the Tender Agent to provide for the purchase of the Bonds bearing interest at the Daily Rate or the Weekly Rate upon their optional or mandatory tender in accordance with the Bond Indenture. Any Liquidity Facility (or Substitute Liquidity Facility) shall be a facility provided by a Liquidity Facility Provider in an amount equal to the Required Stated Amount for such Bonds with a term of at least 360 days from the effective date thereof, and such Liquidity Facility Provider and such Liquidity Facility (including, without limitation, any Liquidity Facility provided by the Corporation or any affiliate thereof) shall be subject to the approval of the Bond Insurer.

The Corporation shall give at least 90 days' written notice to the Bond Trustee, the Bond Insurer and the Tender Agent of (1) its intent to furnish a Liquidity Facility or Substitute Liquidity Facility to the Tender Agent, which notice shall specify the nature of such Liquidity Facility, the identity of the Liquidity Facility Provider, the Bonds to have the benefit of the Liquidity Facility, and the proposed effective date and scheduled termination date of the Liquidity Facility and (2) its intent to terminate a Liquidity Facility then in effect, which notice shall specify the proposed termination date for such Liquidity Facility.

The Corporation covenants and agrees that at all times while any Bonds are outstanding which bear interest at the Daily Rate or Weekly Rate, if the rating of the Liquidity Facility Provider is lowered by either Moody's, Fitch or S&P below "A-1" or "VMIG-1," respectively, then the Corporation shall, unless otherwise consented to in writing by the Bond Insurer, use its best efforts to obtain a Substitute Liquidity Facility within 90 days of receipt of notice of the downgrade of the rating of the Liquidity Facility Provider.

SUPPLEMENTS AND AMENDMENTS TO THE LOAN AGREEMENT

The Corporation, with the consent of the Authority, the Bond Insurer and the Bond Trustee may from time to time enter into such supplements and amendments to the Loan Agreement as to them may seem necessary or desirable to effectuate the purposes or intent of the Loan Agreement; provided, however, that no such amendment shall be effective if not adopted in accordance with the terms of the Bond Indenture. An executed copy of any of the foregoing amendments, changes or modification shall be filed with the Bond Trustee. The Bond Trustee may grant such waivers of compliance by the Corporation with provisions of the Loan Agreement as to which the Bond Trustee may deem necessary or desirable to effectuate the purposes or intent of the Loan Agreement and which, in the opinion of the Bond Trustee, do not have a material adverse effect upon the interests of the Bondholders, provided that the Bond Trustee shall file with the Authority any and all such waivers granted by the Bond Trustee within three (3) business days thereof.

DEFAULTS AND REMEDIES

The occurrence and continuance of any of the following events shall constitute an "event of default" under the Loan Agreement:

(a) failure of the Corporation to pay any installment of interest, principal or premium under the Loan Agreement or on Obligation No. 7 or any other payment required by the Loan Agreement when the same shall become due and payable, whether upon a scheduled Interest Payment Date, on a Maturity Date, upon any date fixed for repayment, upon acceleration or otherwise; or

(b) failure of the Corporation to comply with or perform any of the covenants, conditions or provisions of the Loan Agreement, or failure of the Corporation or any other Obligated Group Member to comply with or perform any of the covenants, conditions or provisions of the Tax Certificate and to remedy such default within 30 days after written notice thereof from the Authority, the Bond Insurer or the Bond Trustee to the Corporation and the Bond Insurer; provided that, with the prior written consent of the Bond Insurer, if such default cannot with due diligence and dispatch be wholly cured within 30 days but can be wholly cured, the failure of the Authority, the Corporation or the Bond Trustee to remedy such default within such 30 day period shall not constitute a default under the Loan Agreement if any of the foregoing shall immediately upon receipt of such notice commence with due diligence and dispatch the curing of such default and, having so commenced the curing of such default, shall thereafter prosecute and complete the same with due diligence and dispatch, provided no such cure period shall continue beyond 60 days after such notice without the written consent of the Bond Insurer; or

(c) any representation or warranty made by the Corporation in the Loan Agreement or in any statement or certificate, furnished to the Authority or the Bond Trustee or the purchaser of any Bonds in connection with the sale of Bonds or furnished by the Corporation or any other Obligated Group Member pursuant thereto proves untrue in any material respect as of the date of the issuance or making thereof and shall not be corrected or brought into compliance within 30 days after written notice thereof to the Corporation and the Bond Insurer by the Authority, the Bond Insurer or the Bond Trustee, provided no such cure period shall continue beyond 60 days after such notice without the written consent of the Bond Insurer; or

(d) any Event of Default (as defined in the Master Indenture) shall occur under the Master Indenture which would permit the acceleration of any Obligation (as defined therein); or

(e) the Corporation admits insolvency or bankruptcy or its inability to pay its debts as they mature, or is generally not paying its debts as such debts become due, or makes an assignment for the benefit of creditors or applies for or consents to the appointment of a trustee, custodian or receiver for the Corporation, or for the major part of its Property; or

(f) a trustee, custodian or receiver is appointed for the Corporation or for the major part of its Property and is not discharged within 60 days after such appointment; or

(g) 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) payment of any installment of interest, principal or premium on any Bond shall not be made when the same shall become due and payable under the provisions of the Bond Indenture; or

(i) failure of the Corporation to comply with or perform its obligations pursuant to the Loan Agreement.

The Corporation will give Immediate Notice to the Authority, the Bond Insurer and the Bond Trustee of any Event of Default described in (d) through (i).

Upon the occurrence and during the continuance of any event of default under the Loan Agreement and subject to compliance with the Loan Agreement, the Authority shall have the following rights and remedies, in addition to any other remedies in the Loan Agreement or by law provided:

(A) The Bond Trustee, as assignee of the Authority, may, with the written consent of the Bond Insurer, or shall, upon the written direction of the Bond Insurer, by written notice to the Master Trustee, request that it declare Obligation No. 7 (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 (as defined in the Master Indenture), anything in Obligation No. 7 or the Loan Agreement contained to the contrary notwithstanding. In addition, upon the occurrence and continuance of an event of default under the Loan Agreement, the Bond Trustee, as assignee of the Authority, may, with the written consent of the Bond Insurer, and shall, at the written direction of the Bond Insurer, by written notice to the Corporation, declare all amounts payable pursuant to the Loan Agreement immediately due and payable.

(B) The Bond Trustee, as assignee of the Authority, may in its discretion, with the written consent of the Bond Insurer, and shall, upon indemnification to its satisfaction and upon the written direction of the Bond Insurer, with or without entry, personally or by attorney, proceed to protect and enforce its rights by pursuing any available remedy including a suit or suits in equity or at law, whether for damages or for the specific performance of any obligation, covenant or agreement contained in Obligation No. 7, in the Loan Agreement or in the Master Indenture, or in aid of the execution of any power granted in the Loan Agreement, or for the enforcement of any other appropriate legal or equitable remedy, as the Bond Trustee shall deem most effectual to collect the payments then due and thereafter to become due on Obligation No. 7 or to enforce performance and observance of any obligation, agreement or covenant of the Corporation under the Loan Agreement, under such Obligation or under the Master Indenture or to protect and enforce any of the Authority's rights or duties under the Master Indenture or under the Loan Agreement.

SUMMARY OF CERTAIN PROVISIONS OF THE DEED OF TRUST

The obligations of the Corporation pursuant to the Loan Agreement and of the Obligated Group Members under the Master Indenture are secured by the lien of the Deeds of Trust upon the Facilities (including certain real property owned by the Obligated Group Members together with all permanent improvements thereon and all fixtures and equipment now or hereafter installed or situated thereon until such time as such purchase money obligation is paid in full).

The Deeds of Trust may be amended, changed, modified or terminated at any time, by the written consent of the Bond Insurer and the Corporation.

Upon the failure of the Obligated Group Members to perform their obligations as required under the Deed of Trust, the Master Trustee, as beneficiary under the Deed of Trust, may elect (subject to direction pursuant to the Master Indenture) to do any or all of the following: (1) make any such payment or do any such act in such manner and to the extent necessary to protect the security of the Deed of Trust; (2) pay, purchase, contest or compromise any claim, debt, lien, charge or encumbrance which may affect or appear to affect the security of the Deed of Trust; (3) take possession of and manage, operate or lease the Property.

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APPENDIX D

Form of Bond Counsel Opinion

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December 20, 2005

Eskaton Properties, Incorporated
5105 Manzanita Avenue
Carmichael, California 95608

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

The Bank of New York Trust Company, N.A.
Corporate Trust Department
700 South Flower Street, Suite 500
Los Angeles, California 90017

Re: ABAG Finance Authority for Nonprofit Corporations \$49,000,000
Revenue Refunding Bonds, Series 2005 (Eskaton Properties,
Incorporated) Auction Rate Securities

Ladies and Gentlemen:

We have acted as Bond Counsel in connection with the issuance and sale by the ABAG Finance Authority for Nonprofit Corporations (the "Issuer"), of its \$49,000,000 Revenue Refunding Bonds, Series 2005 (Eskaton Properties, Incorporated) Auction Rate Securities (the "Bonds").

All capitalized terms used herein and not otherwise defined shall have the same meanings as ascribed to them under the Bond Trust Indenture (the "Indenture") between the Issuer and The Bank of New York Trust company, N.A., as trustee (the "Trustee"), dated as of December 1, 2005.

The description of the Bonds in this opinion and other statements concerning the terms and conditions of the issuance of the Bonds do not purport to set forth all of the terms and conditions of the Bonds, the Indenture, the Agreement (as

defined herein) or any other document relating to the issuance of the Bonds, but are intended only to identify the Bonds and to describe briefly certain features thereof.

The Bonds are dated the date of their initial authentication and delivery, were issued in fully registered form, and will mature on the date set forth in the Indenture, and bear interest on the outstanding principal balance thereof, from the date thereof, at the interest rates described in the Indenture. The Bonds are subject to mandatory and optional tender and mandatory and optional redemption prior to maturity in the manner and upon the terms and conditions set forth in the Indenture.

The Bonds are payable both as to principal and interest from certain revenues payable by the Borrower to the Issuer under the a Loan Agreement (the "Agreement") between the Issuer and Eskaton Properties, Incorporated (the "Borrower"), dated as of December 1, 2005, and from certain other sources, as more particularly described in the Indenture. The Issuer's rights under the Agreement (with certain exceptions) have been assigned to the Trustee pursuant to the terms of the Indenture.

The Bonds are being issued to (i) refund certain outstanding indebtedness and (ii) finance the acquisition and construction of certain capital improvements to properties of the Borrower and certain of its affiliates and (iii) pay certain other expenses incurred in connection with the issuance of the Bonds, as more particularly described in the Indenture and the Agreement.

The Bonds and the obligations evidenced thereby do not constitute a general debt, liability or obligation of the Issuer or the State of California or any political subdivision or agency thereof, or a pledge of the faith and credit of or the taxing power of the Issuer or the State of California or any political subdivision or agency thereof. The Issuer is not obligated to pay the indebtedness evidenced by the Bonds or any interest thereon except from amounts payable to it under the Agreement, or from other collateral pledged therefor, and neither the faith and credit nor the taxing power of the Issuer or the State of California or any political subdivision or agency thereof is pledged to pay the principal of, premium, if any, or the interest on the Bonds.

In rendering the opinions set forth below, we have examined certified copies of a resolution adopted by the Issuer on November 14, 2005, authorizing the issuance of bonds in support of the Borrower (the "Issuer Resolution"), certified copies of the resolutions adopted by the Board of Directors of the Borrower and executed copies of the Indenture, the Agreement, the Tax Certificate dated as of December 1, 2005, executed by the Borrower, and various certificates and opinions delivered in connection therewith, and are relying on the covenants and agreements of the Borrower, the Issuer and the Trustee contained therein, including, without limitation, the covenant of the Borrower to comply with the applicable requirements contained in Section 103 and Part IV of Subchapter B of Chapter 1 of the Internal Revenue Code of 1986, as amended (the

“Code”), and applicable regulations thereunder, to the extent necessary to preserve the exclusion of interest on the Bonds from gross income for federal income tax purposes.

We have also examined certified notices and resolutions relative to approval of the issuance of the Bonds by, respectively, the City Council of the City of Grass Valley, the Board of Supervisors of the County of Sacramento, the Board of Supervisors of the County of El Dorado and the Board of Supervisors of the County of Placer and other proofs submitted to us relative to the issuance and sale by the Issuer of the Bonds.

In addition to the foregoing, we have examined and relied upon the opinion dated the date hereof of Hefner, Stark & Marois, LLP as to the status of the Borrower as an organization described by Section 501(c)(3) of the Code and as to other matters set forth therein.

We have not undertaken an independent audit, examination, investigation or inspection of the matters described or contained in such certificates, representations and opinions, and have relied solely on the facts, estimates and circumstances described and set forth therein.

In our examination of the foregoing, we have assumed the genuineness of signatures on all documents and instruments, the authenticity of documents submitted as originals and the conformity to originals of documents submitted as copies.

The opinions set forth below are expressly limited to, and we opine only with respect to, the laws of the State of California and the federal income tax laws of the United States of America.

Based upon and subject to the foregoing, we are of the opinion that:

(1) The Indenture has been duly authorized, executed and delivered by the Issuer and, assuming due authorization, execution and delivery thereof by the other parties thereto, is a valid and binding obligation of the Issuer, enforceable against the Issuer in accordance with its terms.

(2) The Bonds are valid, legally binding and enforceable special obligations of the Issuer, payable solely from certain revenues derived pursuant to the Agreement and certain other collateral pledged or encumbered therefor, in the manner described in the Issuer Resolutions, the Indenture, the Agreement and the Bonds.

(3) Under existing law, the interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from State of

California personal income taxes. Moreover, such interest will not be treated as an item of tax preference for purposes of the federal alternative minimum tax; however, it should be noted that with respect to corporations (as defined for federal income tax purposes), such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax. The opinions expressed in this paragraph (3) are conditioned upon compliance with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer, the Borrower and the Trustee have covenanted to comply with such requirements. Failure of the Issuer, the Borrower or the Trustee to comply with such requirements could cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactive to the date of issuance of the Bonds. Other provisions of the Code may give rise to adverse federal income tax consequences to particular holders. The scope of this opinion is limited to matters addressed above and no opinion is expressed hereby regarding other federal tax consequences that may arise due to ownership of the Bonds.

Our opinions expressed herein are predicated upon present laws and interpretations thereof. We assume no affirmative obligation with respect to any change of circumstances, laws or interpretations thereof after the date hereof that may adversely affect the opinions contained herein or the exclusion from gross income of interest on the Bonds for federal income tax purposes.

All opinions as to legal obligations of the Issuer and the Borrower set forth above are subject to and limited by (i) bankruptcy, insolvency, reorganization, moratorium or similar laws, in each case relating to or affecting the enforcement of creditors' rights, (ii) applicable laws or equitable principles that may affect remedies or injunctive or other equitable relief, and (iii) other applicable laws that may affect remedies, but do not, in our opinion, materially impair the practical realization of available remedies or the benefits or security of the parties entitled thereto.

This opinion shall not be deemed or treated as an offering circular, prospectus or official statement, and is not intended in any way to be a disclosure document used in connection with the sale or delivery of the Bonds.

The scope of our engagement in relation to the issuance of the Bonds has been limited solely to the examination of facts and law incident to rendering the opinions expressed herein. We have not been engaged nor have we undertaken to review or verify and therefore express no opinion as to the accuracy, adequacy, fairness, completeness or sufficiency of any information or material that may have been used in the offering or

Eskaton Properties, Incorporated
ABAG Finance Authority for Nonprofit Corporations
The Bank of New York Trust Company, N.A., as Trustee
December 20, 2005
Page 5

placement of the Bonds. In addition, we have not passed upon and therefore express no opinion as to the compliance by the Issuer, the Borrower, or any other party involved in this financing with, or the necessity of such parties complying with, any federal or state registration requirements or security statutes, regulations or rulings with respect to the offer, sale or distribution of the Bonds.

Sincerely yours,

HOLLAND & KNIGHT LLP

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APPENDIX E

Specimen Financial Guaranty Insurance Policy

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FINANCIAL GUARANTY INSURANCE POLICY

Obligor:

Bonds:

Bond Trustee:

Insurance Trustee:

Policy Number:

Premium:

Radian Asset Assurance Inc. ("Insurer"), a corporation organized under the laws of the State of New York, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably guarantees the payment of the Obligation (hereinafter defined) to the Insurance Trustee for the benefit of the Holders (hereinafter defined) from time to time of the Bonds. This Policy does not insure against any risk other than nonpayment of the Obligation by or on behalf of the Obligor or any other obligor to the Bond Trustee. Nonpayment includes recovery from a Holder of Bonds or the Bond Trustee of any portion of the Obligation pursuant to a final judgment by any court of competent jurisdiction holding that such payment constituted a voidable preference within the meaning of any applicable bankruptcy law.

Upon receipt by the Insurer of telephonic or telegraphic notice, such notice subsequently confirmed to the Insurer in writing by registered or certified mail, from the Insurance Trustee that the Obligor (or other obligor responsible for payment of the Obligation) has failed to provide the Bond Trustee with sufficient funds for payment of the Obligation on the Due Date (hereinafter defined), the Insurer shall, not later than such Due Date or the first business day after receipt of such notice, whichever is later, pay to the Insurance Trustee for the benefit of the Holders of the Bonds an amount which shall be sufficient to pay the Obligation, but only upon receipt by the Insurer, in a form reasonably satisfactory to it, of (a) evidence of the Holder's right to receive such payment and (b) evidence, including any appropriate instruments of assignment, that all the Holder's rights with respect to such payment shall thereupon vest in the Insurer. "Due Date" means, when referring to the principal of the Obligation, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund prepayment and does not refer to any earlier date on which payment is due by reason of any other call for redemption, acceleration or other advancement of maturity unless the Insurer shall elect, in its sole discretion, to pay such principal due upon such redemption, acceleration or other advancement of maturity together with any accrued interest to the date of redemption, acceleration or other advancement of maturity. Tendering of payment, to the Bond Trustee, of such principal due upon such redemption, acceleration or other advancement of maturity, together with any accrued interest to the date of such redemption, acceleration or other advancement of maturity, shall satisfy the Insurer's obligations under this Policy, in full. When referring to interest on the Obligation, "Due Date" means the stated date for payment of interest.

The Insurer shall, to the extent of any payment made by it pursuant to this Policy, be deemed to have acquired and become the Holder of the Bonds or portions thereof or interest thereon paid from such payment and shall be fully subrogated to all rights to payment thereof.

As used herein, the term "Holder" or "Holders" means the registered owners of the Bonds as indicated in the registration books maintained by the Bond Trustee for such purpose at the time of nonpayment of the Obligation. The terms "Holder" or "Holders" shall not include the Obligor or any person or entity whose direct or indirect obligation constitutes the underlying security for the Obligation. As used herein, the term "Bond Trustee" means the Bond Trustee above named and any successor trustee duly appointed. As used herein, the term "Insurance Trustee" means the Insurance Trustee above named and any successor insurance trustee duly appointed. As used herein, the term "Obligation" means the payment of principal and interest regularly scheduled to be paid on the Bonds, which shall have become due for payment but shall be unpaid on the Due Date, but does not include any premium payable with respect to the Bonds, nor any redemption (except mandatory sinking fund redemption), acceleration or other advancement of maturity.

This Policy is non-cancelable for any reason. Premiums paid on this Policy are not refundable for any reason including without limitation the payment prior to maturity of the Bonds.

IN WITNESS WHEREOF, the Insurer has caused this Policy to be issued to the Insurance Trustee for the benefit of the Holders from time to time of the Bonds and to be executed and delivered by its duly authorized officer to become effective and binding upon the Insurer by virtue of the execution and delivery thereof on this ____ day of _____, 20____.

RADIAN ASSET ASSURANCE INC.

By: _____
Name: [ANALYST]
Title: [TITLE]

In the event the insurer becomes insolvent, any claims arising under this policy are excluded from coverage by the California Insurance Guaranty Association, established pursuant to Article 15.2 (commencing with Section 1063) of Chapter 1 of Part 2 of Division 1 of the California Insurance Code.

This policy is not covered by the Property/Casualty Insurance Security Fund established by Article 76 of the New York Insurance Law.

APPENDIX F

Auction Procedures

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AUCTION PROCEDURES

The following Auction Procedures apply to Bonds which bear interest at Auction Rates.

DEFINITIONS

In addition to the terms defined elsewhere in this Official Statement, the following terms shall have the following meanings with respect to the Bonds while they are Auction Rate Securities, unless the context otherwise requires:

"Agent Member " means a member of, or participant in, the Securities Depository who will act on behalf of a Bidder.

"All Hold Rate " means, as of any Auction Date, a per annum rate equal to 55% of the Auction Rate Index in effect on such Auction Date.

"Auction " means each periodic implementation of the Auction Procedures.

"Auction Agent" means the auction agent appointed in accordance with the provisions summarized under the captions "Auction Agent" and "Qualification of Auction Agent; Resignation; Removal" herein.

"Auction Agreement" means an agreement, the terms and provisions of which are acceptable to the Bond Insurer, among the Auction Agent and the Corporation pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix F, as such agreement may from time to time be amended or supplemented.

"Auction Date" means the Business Day immediately preceding the first day of each Auction Period (or such other day that the Market Agent shall establish as the Auction Date therefor pursuant to the provisions summarized under the caption "Changes in Auction Period or Auction Date" herein); provided, however, that the last Auction Date in an Auction Period shall be the earlier of (i) the Business Day next preceding the last Interest Payment Date before a Mode Change Date and (ii) the Business Day next preceding the last Interest Payment Date before the Maturity Date.

"Auction Period" means for any Auction Rate Security while it is in the Auction Rate Mode:

(i) the Initial Auction Period; and

(ii) thereafter until a Mode Change Date or until the Maturity Date of such Auction Rate Security, each period of 7 days (unless changed as described in the provisions summarized under the caption "Changes in Auction Period or Auction Date") from and including the last Interest Payment Date for the immediately preceding Auction Period, to and including the next succeeding Auction Date or, in the event of an Auction Period with an Interest Payment Date on a Monday, the Sunday following the next succeeding Auction Date, or in the event of a change to a different Mode, to but excluding the Mode Change Date;

provided, if any day that would be the last day of any such period does not immediately precede a Business Day, such period shall end on the next day which immediately precedes a Business Day.

"Auction Procedures" means the procedures for conducting Auctions for the Auction Rate Securities during an Auction Period set forth in this Appendix F.

"Auction Rate" means the rate of interest to be borne by the Auction Rate Securities during each Auction Period, not greater than the Maximum Rate, determined in accordance with the provisions of the Bond Indenture, including the provisions summarized under the caption "Determination of Auction Rate" herein which (i) if Sufficient Clearing Bids exist, will be the Winning Bid Rate; provided, however, that if all of the Auction Rate Securities are the subject of Submitted Hold Orders, the Auction Rate will be the All Hold Rate and (ii) if Sufficient Clearing Bids do not exist, will be the Maximum Rate.

"Auction Rate Index " has the meaning specified in the provisions summarized under the caption "Auction Rate Index" herein.

"Auction Rate Mode Change Date " means the date on which the Auction Rate Securities convert from a Mode other than an Auction Mode and begin to bear interest at an Auction Rate.

"Auction Rate Securities " means the Bonds during any Auction Period.

"Available Bonds" means the aggregate principal amount of the Auction Rate Securities that are not the subject of Submitted Hold Orders.

"Beneficial Owner " of Auction Rate Securities means the customer of a Broker-Dealer for such Auction Rate Securities who is listed on the records of that Broker-Dealer (or, if applicable, the Auction Agent) as the holder of such Auction Rate Securities.

"Bid" has the meaning specified in subsection (a) of the provisions summarized under the caption "Orders by Existing and Potential Owners" herein.

"Bidder " means each Existing Owner and Potential Owner who places an Order.

"Broker-Dealer" means any entity that is permitted by law to perform the function required of a Broker-Dealer as described in this Appendix F that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Corporation and approved by the Bond Insurer, and that is a party to a Broker-Dealer Agreement with the Auction Agent.

"Broker-Dealer Agreement" means an agreement between the Auction Agent and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures specified in this Appendix F, as such agreement may from time to time be amended or supplemented. Each Broker-Dealer Agreement shall provide that (A) it may be terminated at the direction of the Bond Insurer, with the prior written consent of the Corporation unless the Corporation is in default with respect to its obligations under the Loan Agreement or the Master Indenture, at any time, (B) the Bond Insurer shall have the right to direct the Auction Agent to enter into a Broker-Dealer Agreement with additional Broker-Dealers without the consent of any other Broker-Dealer, and (C) the Bond Insurer shall be a third party beneficiary of each Broker-Dealer Agreement for purposes of enforcement of these rights.

"Broker-Dealer Rate" means a rate of 0.25% or such different rate as may be established pursuant to a Broker-Dealer Agreement, provided that the Broker-Dealer Rate must be the same in all Broker-Dealer Agreements.

"Existing Owner " means a Person or a Broker-Dealer who is listed as the Beneficial Owner of the Auction Rate Securities in the records of the Auction Agent.

"*Hold Order*" has the meaning specified in subsection (a) of provisions summarized under the caption "Orders by Existing and Potential Owners" herein.

"*Initial Auction Period*" means the period from and including, December 20, 2005, through and including, January 4, 2006.

"*LIBOR* " has the meaning specified in subsection (a) of the provisions summarized under the caption "Auction Rate Index" herein.

"*Market Agent*" means Merrill, Lynch, Pierce, Fenner & Smith Incorporated or any successor market agent appointed in accordance with the provisions summarized under the caption "Market Agent" herein.

"*Order* " means a Hold Order, Bid or Sell Order.

"*Potential Owner*" means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in Auction Rate Securities in addition to the Auction Rate Securities at the time owned by such Person, if any.

"*Principal Office of the Auction Agent*" means the office of the Auction Agent designated in writing to the Authority, the Bond Trustee, the Market Agent, and each Broker-Dealer.

"*Securities Depository* " means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Bond Trustee which agrees to follow the procedures required to be followed by such securities depository in connection with the Auction Rate Securities.

"*Sell Order*" has the meaning specified in subsection (a) of provisions summarized under the caption "Orders by Existing and Potential Owners" herein.

"*Submission Deadline*" means 12:00 noon, Eastern time, on each Auction Date, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

"*Submitted Bid*" has the meaning specified in the provisions summarized under the caption "Determination of Auction Rate" herein.

"*Submitted Hold Order*" has the meaning specified in the provisions summarized under the caption "Determination of Auction Rate" herein.

"*Submitted Order*" has the meaning specified in the provisions summarized under the caption "Determination of Auction Rate" herein.

"*Submitted Sell Order*" has the meaning specified in the provisions summarized under the caption "Determination of Auction Rate" herein.

"*Sufficient Clearing Bids* " means an Auction for which the aggregate principal amount of the Auction Rate Securities that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the aggregate principal amount of the Auction Rate Securities that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

"Winning Bid Rate" means the lowest rate in any Submitted Bid which, if selected by the Auction Agent as the Auction Rate, would cause the aggregate principal amount of Auction Rate Securities that are the subject of Submitted Bids specifying rates not greater than such rate to be at least equal to the aggregate principal amount of Available Bonds.

AUCTION PROCEDURES

While the Auction Rate Securities bear interest at the Auction Rate, Auctions shall be conducted on each Auction Date (other than the Auction Date immediately preceding each Auction Period commencing after the ownership of the Auction Rate Securities is no longer maintained in the book-entry system pursuant to the provisions of the Bond Indenture. If there is an Auction Agent on such Auction Date, Auctions shall be conducted in the manner set forth in this Appendix F.

ORDERS BY EXISTING OWNERS AND POTENTIAL OWNERS

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of the Auction Rate Securities, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of the Auction Rate Securities, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of the Auction Rate Securities, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on the Auction Rate Securities, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of the Auction Rate Securities, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

An Order containing the information referred to in clause (i)(A) of this subsection (a) is herein referred to as a *"Hold Order,"* an Order containing the information referred to in clause (i)(B) or clause (ii) of this subsection (a) is herein referred to as a *"Bid,"* and an Order containing the information referred to in clause (i)(C) of this subsection (a) is herein referred to as a *"Sell Order."*

(b)(i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the Auction Rate Securities specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the Auction Rate Securities to be determined as set forth in subsection (a)(v) of the provisions summarized under the caption "Allocation of the Auction Rate Securities" herein if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of the Auction Rate Securities to be determined as set forth in subsection (b)(iv) of the provisions summarized under the caption "Allocation of the Auction Rate Securities" herein if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the Auction Rate Securities specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of the Auction Rate Securities as set forth in subsection (b)(iv) of the provisions summarized under the caption "Allocation of the Auction Rate Securities" herein if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of the Auction Rate Securities specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the Auction Rate Securities as set forth in subsection (a)(vi) of the provisions summarized under the caption "Allocation of the Auction Rate Securities" herein if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(C) Anything in the provisions of the Bond Indenture summarized herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies the Auction Rate Securities to be held, purchased or sold in a principal amount which is not \$25,000 or an integral multiple thereof shall be rounded down to the nearest \$25,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction, any portion of an Order of an Existing Owner which relates to an Auction Rate Security which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction, no portion of an Auction Rate Security which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Bond Trustee or the Authority of the occurrence of an Event of Default resulting from a failure by the Authority to pay principal, premium or interest on any such Bonds when due and a failure of the Bond Insurer to pay when due a claim properly made under the Bond Insurance Policy in respect thereof, but shall resume two Business Days after the date on which the Auction Agent receives notice from the Bond Trustee that such Event of Default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

SUBMISSION OF ORDERS BY BROKER-DEALERS TO AUCTION AGENT

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of the Auction Rate Securities that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:

(A) the principal amount of the Auction Rate Securities, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the Auction Rate Securities, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the Auction Rate Securities, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the Auction Rate Securities held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of the Auction Rate Securities held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of the Auction Rate Securities held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing

Owner covering the principal amount of the Auction Rate Securities held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of the Outstanding Auction Rate Securities held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of the Auction Rate Securities held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of the Auction Rate Securities held by such Existing Owner over the principal amount of the Auction Rate Securities subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A), all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of the Auction Rate Securities held by such Existing Owner over the principal amount of the Auction Rate Securities held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above,

(C) subject to clause (A), if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of the Auction Rate Securities held by such Existing Owner over the principal amount of the Auction Rate Securities held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above, and

(D) the principal amount, if any, of such Auction Rate Securities subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner; and

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of the Auction Rate Securities equal to the excess of the principal amount of the Auction Rate Securities held by such Existing Owner over the sum of the principal amount of the Auction Rate Securities considered to be subject to Hold Orders pursuant to paragraph (i) above and the principal amount of the Auction Rate Securities considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of the Auction Rate Securities specified therein.

(f) The Corporation, the Authority, the Bond Trustee, the Market Agent and the Auction Agent shall not be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

DETERMINATION OF AUCTION RATE

(a) Not later than 8:30 a.m., Eastern time, on each Auction Date, the Auction Agent shall advise the Broker-Dealers and the Bond Trustee by telephone of the All Hold Rate and the Auction Rate Index.

(b) Promptly after the Submission Deadline on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "*Submitted Hold Order*," a "*Submitted Bid*" or a "*Submitted Sell Order*," as the case may be, and collectively as a "*Submitted Order*") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent shall advise the Bond Trustee and the Corporation by telephone (promptly confirmed in writing), telex or facsimile transmission of the Auction Rate for the next succeeding Auction Period.

(d) In the event the Auction Agent shall fail to calculate, or for any reason shall fail to timely provide the Auction Rate for any Auction Period, (i) if the preceding Auction Period was a period of 28 days or less, the new Auction Period shall be the same as the preceding Auction Period and the Auction Rate for the new Auction Period shall be the same as the Auction Rate for the preceding Auction Period, and (ii) if the preceding Auction Period was a period of greater than 28 days, the preceding Auction Period shall be extended to the seventh day following the day that would have been the last day of such Auction Period had it not been extended (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) and the Auction Rate in effect for the preceding Auction Period shall continue in effect for the Auction Period as so extended. In the event the Auction Period is extended as set forth in clause (ii) of the preceding sentence, an Auction shall be held on the last Business Day of the Auction Period as so extended.

(e) In the event of a failed change of Mode to a Unit Pricing Mode, a Daily Mode, a Weekly Mode, an R-FLOATs Mode, a Term Rate Mode, an Indexed Mode, a Stepped Coupon Mode or a Fixed Rate Mode, or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period shall automatically convert to a seven day period commencing on the failed conversion or change date and the interest borne by the Auction Rate Securities during the Auction Period commencing on such failed Mode Change Date shall be the Maximum Rate until the first Auction Date after the proposed conversion or change date.

(f) In the event that the Auction Rate Securities are not rated or if the Auction Rate Securities are no longer held in book-entry form by the Securities Depository, no Auctions will be held and the Auction Rate for the Auction Rate Securities shall be the Maximum Rate.

(g) The Auction Procedures shall be suspended during the period commencing on the date of the Auction Agent's receipt of notice from the Bond Trustee or the Corporation of the occurrence of an event of default under the Bond Indenture resulting from a failure by the Authority to pay principal, premium or interest on any Auction Rate Security when due, together with the failure by the Bond Insurer to honor its payment obligations under the Bond Insurance Policy, but shall resume two Business Days after the date on which the Auction Agent receives written notice from the Bond Trustee that such event of default has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter. The Auction Rate during this period shall be the Maximum Rate.

ALLOCATION OF THE AUCTION RATE SECURITIES

(a) In the event of Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Securities that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Auction Rate Securities that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Securities that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Securities that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Securities that are the subject of such Submitted Bid, but only up to and including the principal amount of the Auction Rate Securities obtained by multiplying (A) the aggregate principal amount of the Outstanding Auction Rate Securities which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of the Outstanding Auction Rate Securities held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of the Outstanding Auction Rate Securities subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of the Auction Rate Securities;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Securities that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of the Auction Rate Securities obtained by multiplying (A) the aggregate principal amount of the Outstanding Auction Rate Securities which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraphs (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of the Outstanding Auction Rate Securities subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of the Outstanding Auction Rate Securities subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids, subject to the further provisions of subsections (c) and (d) below, Submitted Orders shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Securities that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Auction Rate Securities that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Auction Rate Securities that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of the Auction Rate Securities obtained by multiplying (A) the aggregate principal amount of the Auction Rate Securities subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of the Outstanding Auction Rate Securities held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of the Outstanding Auction Rate Securities subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of the Auction Rate Securities; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of Auction Rate Securities which is not an integral multiple of \$25,000 on any Auction Date, the Auction Agent shall by lot round up or down the principal amount of the Auction Rate Securities to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the Auction Rate Securities purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any of the Auction Rate Securities on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than \$25,000 in principal amount of the Auction Rate Securities on any Auction Date, the Auction Agent shall by lot allocate the Auction Rate Securities for purchase among Potential Owners so that the principal amount of Auction Rate Securities purchased on such Auction Date by any Potential Owner shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Potential Owners not purchasing the Auction Rate Securities on such Auction Date.

NOTICE OF AUCTION RATE

(a) On each Auction Date, the Auction Agent shall notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of any Existing Owner or Potential Owner of:

- (i) the Auction Rate fixed for the succeeding Auction Period;
- (ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;
- (iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of the Auction Rate Securities, if any, to be sold by such Existing Owner;
- (iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of the Auction Rate Securities, if any, to be purchased by such Potential Owner;
- (v) if the aggregate principal amount of the Auction Rate Securities to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of the Auction Rate Securities to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the principal amount of the Auction Rate Securities to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and
- (vi) the immediately succeeding Auction Date.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall:

- (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted a Bid or Sell Order whether such Bid or Sell Order was accepted or rejected, in whole or in part;
- (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of the Auction Rate Securities to be purchased pursuant to such Bid against receipt of such Auction Rate Securities;
- (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of the Auction Rate Securities to be sold pursuant to such Bid or Sell Order against payment therefor;

(iv) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order and each Potential Owner on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next succeeding Auction Period;

(v) advise each Existing Owner on whose behalf such Broker-Dealer submitted an Order of the Auction Date of the next succeeding Auction; and

(vi) advise each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the Auction Date of the next succeeding Auction.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order shall allocate any funds received by it pursuant to subparagraph (b)(ii) above, and any Auction Rate Securities received by it pursuant to (b)(iii) above, among the Potential Owners, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Owners, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders, and any Broker-Dealer identified to it by the Auction Agent pursuant to subparagraph (a)(v) above.

(d) On the Business Day after the Auction Date, the Securities Depository shall execute the transactions described above, debiting and crediting the accounts of the respective Agent Members as necessary to effect the purchase and sale of Auction Rate Securities as determined in the Auction.

AUCTION RATE INDEX

(a) The Auction Rate Index on any Auction Date shall be LIBOR.

"LIBOR" means, on any date of determination for an Auction Period, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Telerate Page 3750 at approximately 11:00 a.m., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market.

(b) If for any reason on any Auction Date, the Auction Rate Index shall not be determined as hereinabove provided in this caption, the Auction Rate Index shall be the Auction Rate Index for the Auction Period ending on such Auction Date.

(c) The determination of the Auction Rate Index as described in this Appendix F shall be conclusive and binding upon the Authority, the Corporation, the Bond Trustee, the Broker-Dealers, the Auction Agent, the Market Agent and the Holders and Beneficial Owners of the Auction Rate Securities.

MISCELLANEOUS PROVISIONS REGARDING AUCTIONS

(a) In this Appendix F, each reference to the purchase, sale or holding of "Auction Rate Securities" shall refer to beneficial interests in the Auction Rate Securities, unless the context clearly requires otherwise.

(b) During an Auction Period, with the prior written consent of the Bond Insurer, the provisions of this Appendix F including, without limitation, the definitions of All-Hold Rate, Maximum Rate, Auction Rate Index, Interest Payment Date and Auction Rate may be amended pursuant to the provisions of the Bond Indenture. If the amendment is pursuant to provisions of the Bond Indenture, on the first Auction Date occurring at least 20 days after the date on which the Bond Trustee mailed notice of such proposed amendment to the Holders of the Outstanding Auction Rate Securities affected by such

amendment, as required by the provisions of the Bond Indenture, (i) Sufficient Clearing Bids have been received or all of the Auction Rate Securities are subject to Submitted Hold Orders, and (ii) there is delivered to the Authority and the Bond Trustee a Favorable Opinion of Bond Counsel with respect to such amendment, the proposed amendment shall be deemed to have been consented to by the Holders of all Outstanding Auction Rate Securities affected by such amendment.

(c) During an Auction Period, so long as the ownership of the Auction Rate Securities is maintained in book-entry form by the Securities Depository, an Existing Owner or a Beneficial Owner may sell, transfer or otherwise dispose of an Auction Rate Security only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of the Auction Rate Securities from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the Holder of such Auction Rate Securities to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of the provisions summarized under this caption if such Broker-Dealer remains the Existing Owner of the Auction Rate Securities so sold, transferred or disposed of immediately after such sale, transfer or disposition.

CHANGES IN AUCTION PERIOD OR AUCTION DATE

(a) *Changes in Auction Period*

(i) During any Auction Period, the Corporation may, from time to time subject to the requirements of the Bond Indenture, on any Interest Payment Date, change the length of any Auction Period with respect to the Auction Rate Securities to a period of any integral multiple of 7 days or to a six-month or any integral multiple of six months Auction Period (provided that the length of the first Auction Period after such change in length or a change in Auction Date may be the number of days necessary to result in the immediately following Auction Period having a length which is an integral multiple of seven days or six months, as applicable) in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Auction Rate Securities. The Corporation shall initiate the change in the length of the Auction Period by giving written notice at least 10 Business Days prior to the Auction Date for such Auction Period to the Authority, the Bond Trustee, the Auction Agent, the Market Agent, the Broker-Dealers, the Bond Insurer and the Securities Depository that the Auction Period for the Bonds specified in such notice will change if the conditions described in this caption are satisfied and the proposed effective date of the change. Any notice of a change in the length of an Auction Period shall be accompanied by (A) a written statement from all Broker-Dealers, addressed to the Authority and the Bond Trustee, to the effect that the Broker-Dealers have determined, in their sole judgment, that the change in the length of the Auction Period would result in the lowest aggregate cost, taking into account interest and other determinable fees and expenses, being payable with respect to the Auction Rate Securities over the next twelve months commencing with the date of the change in the length of the Auction Period, or (B) an approval in writing of such change in the length of the Auction Period by a duly authorized officer of the Authority, or (C) a Favorable Opinion of Bond Counsel, to the effect that such approval is not required for the continued validity and enforceability of the Auction Rate Securities in accordance with their terms.

(ii) Except as permitted by the proviso appearing in Subsection (i) immediately above, any such changed Auction Period shall be for a period of any integral multiple of 7 days or for a period of six months or any integral multiple of six months and shall be for all of the

Auction Rate Securities identified in the Corporation's notice referred to in Subsection (i) immediately above.

(iii) The change in the length of the Auction Period shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Auction Rate Securities except to the extent such Existing Owner submits an Order with respect to such Auction Rate Securities. If the condition referred to in the first sentence of this paragraph (iv) is not met, the Auction Rate for the next Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(b) *Changes in Auction Date.* During any Auction Period, the Market Agent, with the written consent of the Corporation and the Bond Insurer, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on the Auction Rate Securities. The Market Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Bond Trustee, the Corporation, the Authority, the Broker-Dealers, the Auction Agent and the Securities Depository.

(c) *No Auction Rate Mode Change Date.* The date on which a change in the length of an Auction Period or a change in an Auction Date occurs is not an Auction Rate Mode Change Date.

AUCTION AGENT

(a) The initial Auction Agent shall be any auction agent or any successor appointed by the Corporation, with the consent of the Bond Insurer, to perform the functions specified in this Appendix F. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Authority, the Bond Trustee, the Corporation, the Market Agent, the Bond Insurer and each Broker-Dealer which will set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Corporation and the Bond Trustee.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in the Auction Rate Securities with the same rights as if such entity were not the Auction Agent.

QUALIFICATIONS OF AUCTION AGENT: RESIGNATION; REMOVAL

The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all of the duties imposed upon it by the Bond Indenture and a member

of or a participant in, the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Bond Indenture by giving at least 90 days notice to the Authority, the Corporation, the Bond Insurer and the Bond Trustee. The Auction Agent may be removed at any time by the Corporation, with the consent of the Bond Insurer, by written notice, delivered to the Auction Agent, the Market Agent, the Bond Insurer and the Bond Trustee. The Auction Agent may also be removed for cause by the Bond Insurer. Upon any such resignation or removal, the Corporation shall appoint a successor Auction Agent (acceptable to the Bond Insurer) meeting the requirements of the provisions summarized under this caption. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and Auction Rate Securities held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor has been appointed by the Corporation. In the event that the Auction Agent has not been compensated for its services, the Auction Agent (a) may resign by giving 45 days notice to the Authority, the Corporation, the Market Agent, the Bond Insurer and the Bond Trustee even if a successor Auction Agent has not been appointed and (b) shall give written notice of non-payment as soon as practicable to the Bond Insurer.

MARKET AGENT

The Corporation has appointed Merrill Lynch, Pierce, Fenner & Smith Incorporated as the initial Market Agent. The Market Agent, including any successor appointed pursuant to the provisions of the Bond Indenture, shall be a member of the National Association of Securities Dealers, Inc. having capitalization of at least \$25,000,000, and be authorized by law to perform all the duties imposed upon it by the Bond Indenture. The Market Agent may be removed at any time at the direction of the Corporation, with the consent of the Bond Insurer, by written notice delivered to the Market Agent, the Auction Agent and the Bond Trustee, provided that such removal shall not take effect until the appointment of a successor Market Agent. The Market Agent may resign upon 30 days' written notice delivered to the Corporation, the Broker-Dealer, the Bond Insurer and the Bond Trustee. The Corporation shall use its best efforts to appoint a successor Market Agent that is a qualified institution, effective as of the effectiveness of any such resignation or removal. Any successor Market Agent must be approved by the Bond Insurer.

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APPENDIX G

Book-Entry Only System

The information provided in this APPENDIX H has been provided by DTC . No representation is made by the Authority, the Bond Insurer, the Underwriter, the Bond Trustee, the Corporation or the other Members of the Obligated Group 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 of this Official Statement.

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Series 2005 Bonds. The Series 2005 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for the Series 2005 Bonds, in the aggregate principal amount of such Series 2005 Bonds, and will be deposited with DTC.

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

Purchases of Series 2005 Bonds under the Book-Entry System must be made by or through Direct Participants, which will receive a credit for the Series 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2005 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 2005 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will

not receive certificates representing their ownership interests in the Series 2005 Bonds, except in the event that use of the Book-Entry System for the Series 2005 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2005 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 2005 Bonds with DTC and their registration in the name of Cede & Co. or such other nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series 2005 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Series 2005 Bonds, such as redemptions, tenders, defaults, and proposed amendments to security documents. For example, Beneficial Owners of the Series 2005 Bonds may wish to ascertain that the nominee holding the Series 2005 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, or in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Series 2005 Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in the Series 2005 Bonds to be redeemed.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Series 2005 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Bond Trustee as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 2005 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2005 Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Authority or the Bond Trustee on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Bond Trustee, the Authority or the Corporation or any other Member of the Obligated Group, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments 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, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Series 2005 Bonds purchased or tendered, through its Participant, to the Bond Trustee, and shall effect delivery of such Series 2005

Bonds by causing the Direct Participant to transfer the Participant's interest in the Series 2005 Bonds, on DTC's records, to the Bond Trustee. The requirement for physical delivery of Series 2005 Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 2005 Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Series 2005 Bonds to the Bond Trustee's DTC's account.

DTC may discontinue providing its services as securities depository with respect to Series 2005 Bonds at any time by giving notice to the Authority and the Bond Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered.

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

While the Series 2005 Bonds are in the Book-Entry System, reference in this Official Statement to owners of such Series 2005 Bonds should be read to include any person for whom a Participant acquires an interest in the Series 2005 Bonds, but (i) all rights of ownership, as described herein, must be exercised through DTC and the Book-Entry System and (ii) notices that are to be given to registered owners by the Bond Trustee will be given only to DTC. DTC is required to forward (or cause to be forwarded) the notices to the Participants by its usual procedures so that such Participants may forward (or cause to be forwarded) such notices to the Beneficial Owners.

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