NEW ISSUE – BOOK ENTRY ONLY

Standard & Poor's "A+"
(See "RATING" herein)

In the opinion of Foley & Lardner LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 and interest on the Bonds is exempt from State of California personal income taxes. In the further opinion of Bond Counsel, interest on the Series 2008A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings in calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

$36,620,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Insured Health Facility Revenue Bonds (Institute on Aging), Series 2008A

Institute on Aging

$4,785,000
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS
Insured Health Facility Revenue Bonds (Institute on Aging), (Taxable) Series 2008B

Dated: Date of Issuance

Due: August 15, as shown below

The above-referenced bonds (the "Bonds") are being issued by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") to provide moneys for a loan to Institute on Aging, a California nonprofit public benefit corporation (the "Borrower"), to assist the Borrower in financing the acquisition, construction, improvement and equipping of certain senior support and health care facilities located in the City of San Francisco.

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

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

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

Interest on the Bonds is payable semi-annually on each February 15 and August 15, commencing February 15, 2009. **The Bonds are subject to redemption prior to maturity as described herein.**

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

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

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

MATURITY SCHEDULE

$1,290,000 4.375% Term Series 2008A Bonds due August 15, 2018, Price: 100% CUSIP† No. 00037KBK7
$11,465,000 5.150% Term Series 2008A Bonds due August 15, 2027, Price: 100% CUSIP† No. 00037KBL5
$23,865,000 5.650% Term Series 2008A Bonds due August 15, 2038, Price: 100% CUSIP† No. 00037KBM3
$4,785,000 5.850% Term Series 2008B Bonds due August 15, 2017, Price: 100% CUSIP† No. 00037KBN1

The Bonds are offered when, as and if issued and received by the Underwriter, subject to an approving legal opinion of Foley & Lardner LLP, San Francisco, California, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon for the Authority by Chapman and Cutler LLP, San Francisco, California, special counsel to the Authority, and for the Borrower by Folger Levin & Kahn LLP, San Francisco, California. Certain legal matters will be passed upon for the Underwriter by Jones Hall, A Professional Law Corporation, San Francisco, California. It is expected that the Bonds in definitive form will be available for delivery through the facilities of DTC in New York, New York, on or about August 28, 2008.

CAIN BROTHERS

Dated: August 20, 2008

Artist's Rendering of planned mixed-use building at 3575 Geary Boulevard.
The Project for the Institute on Aging consists of the basement, first and second floors.

GENERAL INFORMATION ABOUT THIS OFFICIAL STATEMENT

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

Estimates and Forecasts. When used in this Official Statement and in any continuing disclosure by the Authority or the Borrower, in any press release and in any oral statement made with the approval of an authorized officer of the Authority or the Borrower, the words or phrases "will likely result," "are expected to", "will continue", "is anticipated", "estimate", "project," "forecast", "expect", "intend" and similar expressions identify "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such statements are subject to risks and uncertainties that could cause actual results to differ materially from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, give rise to any implication that there has been no change in the affairs of the Authority or the Borrower since the date hereof.

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

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

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

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

TABLE OF CONTENTS

[THIS PAGE INTENTIONALLY LEFT BLANK]

OFFICIAL STATEMENT

$36,620,000	**$4,785,000**
ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS	**ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS**
Insured Health Facility Revenue Bonds (Institute on Aging), Series 2008A	**Insured Health Facility Revenue Bonds (Institute on Aging), (Taxable) Series 2008B**

This Official Statement is furnished in connection with the offering of $36,620,000 aggregate principal amount of Insured Health Facility Revenue Bonds (Institute on Aging), Series 2008A (the "**Series 2008A Bonds**") and $4,785,000 aggregate principal amount of Insured Health Facility Revenue Bonds (Institute on Aging), (Taxable) Series 2008B (the "**Series 2008B Bonds**", and with the Series 2008A Bonds, the **"Bonds"**) issued by the ABAG Finance Authority for Nonprofit Corporations (the **"Authority"**). All capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings as in the Indenture and Regulatory Agreement (defined herein).

INTRODUCTION

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

Authority to Issue. The Bonds will be issued under the Joint Exercise of Powers Act, constituting Title 1, Division 7, Chapter 5 of the Government Code of the State of California (the **"Act"**), and an Indenture, dated as of August 1, 2008 (the **"Indenture"**), between the Authority and Wells Fargo Bank, National Association, San Francisco, California, as trustee (the **"Trustee"**).

Purpose of the Issue. The proceeds of the Bonds will be loaned to Institute on Aging, a California nonprofit public benefit corporation (the "**Borrower**"), pursuant to a Loan Agreement, dated as of August 1, 2008, between the Authority and the Borrower (the **"Loan Agreement"**).

The loan proceeds, together with certain funds provided by the Borrower, will be used as follows:

- to finance the Project and to refinance prior debt of the Borrower (see "FINANCING PLAN; ESTIMATED USES AND SOURCES OF FUNDS" below),
- to fund separate Bond Reserve Accounts for each series of Bonds, each in an amount equal to the respective Bond Reserve Account Requirement,
- to fund the certification fee, inspection fee and insurance premium payable to the Office of Statewide Health Planning and Development of the State of California (the "**Office**"),
- to pay interest on the Bonds for approximately 28 months following issuance of the Bonds, and
- to pay a portion of the costs of issuance of the Bonds.

See "FINANCING PLAN; ESTIMATED SOURCES AND USES OF FUNDS" herein.

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

In accordance with the California Health Facility Construction Loan Insurance Law, Chapter 1 of Part 6 of Division 107 of the California Health and Safety Code (the **"Insurance Law"**), the Authority and the Borrower will enter into a Contract of Insurance (the **"Contract of Insurance"**), dated as of August 1, 2008, and a Regulatory Agreement, dated as of August 1, 2008 (the **"Regulatory Agreement"**), with the Office, pursuant to which the Office will insure the payment of the principal of and interest on the Bonds. If moneys are not available to pay the principal of or interest on the Bonds, the Office shall continue to make payments on the Bonds or shall instruct the Trustee to declare the principal of all Bonds then outstanding and interest accrued thereon to be due and payable immediately and make payment of such principal and interest, and, upon the occurrence of certain events, shall notify the Treasurer of the State of California and the Treasurer shall issue debentures to the holders of the Bonds fully and unconditionally guaranteed by the State in an amount equal to the principal of and accrued interest on the Bonds. For a more detailed description of the obligation of the Office to insure the payment of the principal of and interest on the Bonds, including the circumstances under which the insurance may be canceled and the procedures with respect to insurance default, and the obligations of the Borrower pursuant to the Regulatory Agreement, see "SECURITY FOR THE BONDS - California Health Facility Construction Loan Insurance Program" herein and APPENDIX C – "SUMMARY OF PRINCIPAL LEGAL DOCUMENTS".

In connection with the issuance of the Bonds, the Borrower will execute a Deed of Trust with Fixture Filing and Security Agreement dated as of August 1, 2008 (the "**Deed of Trust**"). The Deed of Trust will grant to the trustee thereunder a first lien on and security interest in certain real property of the Borrower (the "Facilities"), as security for the performance of the Borrower's obligations under the Loan Agreement, the Regulatory Agreement and the Contract of Insurance and with respect to the Bonds and any Parity Debt. For as long as the Office is obligated under the Contract of Insurance, all rights under the Deed of Trust will be exercised solely by the Office. See "SECURITY FOR THE BONDS – Deed of Trust".

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

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

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

THE AUTHORITY

The Authority is a joint exercise of powers authority duly organized and existing under the laws of the State of California. The Authority was formed under 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 Chapter 5 of Division 7 of Title I (commencing with Section 6500) of the Government Code of the State of California 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.

FINANCING PLAN; ESTIMATED SOURCES AND USES OF FUNDS

General. The Bonds are being issued for the purpose of financing construction, equipping and furnishing of facilities that will provide access to affordable health care and other support services for seniors (the "**Project**") and to refinance prior debt of the Borrower. The Project will consist of the construction, equipping and furnishing of facilities that will provide access to affordable health care and other support services for low income, frail older adults, consisting of approximately 54,000 square feet of clinic, meeting and office space along with a 67-car below grade parking garage located at property owned by the Borrower at 3569-3575 Geary Boulevard in San Francisco. See "APPENDIX A - Information Concerning the Borrower - THE PROJECT".

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

Sources of Funds:	
Principal Amount of Series 2008A Bonds	$36,620,000
Principal Amount of Series 2008B Bonds	4,785,000
Plus Borrower's Contribution	4,600,556
Total Sources of Funds	*$46,005,556*
Uses of Funds:	
Deposit to Project Fund (1)	$31,297,434
Prepayment of outstanding debt of the Borrower	3,500,000
Deposit to Series 2008A Reserve Subaccount (2)	1,995,758
Deposit to Series 2008B Reserve Subaccount (3)	978,443
Costs of Issuance (4)	786,488
Deposit to Capitalized Interest Account (5)	4,666,686
Premium/fees for Contract of Insurance (6)	2,780,747
Total Uses of Funds	*$46,005,556*

(1) Reflects net-funding of Project Fund for costs to be paid over the construction period (see "APPENDIX A - Information Concerning the Borrower").

(2) Represents an amount equal to the Series 2008A Reserve Requirement. See "SECURITY FOR THE BONDS – Bond Reserve Accounts."

(3) Represents an amount equal to the Series 2008B Reserve Requirement. See "SECURITY FOR THE BONDS – Bond Reserve Accounts."

(4) Includes underwriter's discount, legal costs, accounting costs, third-party consultant costs, printing costs, rating agency fees, Trustee fees, Authority fees, and other miscellaneous costs of issuance of the Bonds.

(5) Represents the interest on the Series 2008A Bonds for approximately 28 months following issuance of the Bonds.

(6) Includes $500 application fee previously paid by the Borrower.

THE BONDS

General

Each series of the Bonds will be dated as of their date of issuance, and will bear interest at the rates set forth on the inside cover page of this Official Statement, payable semi-annually on each February 15 and August 15, commencing February 15, 2009. Subject to the redemption provisions set forth below, the Bonds will be payable at the principal corporate trust office of the Trustee, in San Francisco, California. Interest on each series of the Bonds will be payable by check or draft mailed by the Trustee on each interest payment date to the registered owners thereof as of the 1st day of the calendar month preceding the interest payment date (a **"Record Date"**), whether or not such day is a Business Day, at the address shown on the registration books maintained by the Trustee. Upon written request of any owner of at least $1,000,000 aggregate principal amount of Bonds received by the Trustee before the Record Date, interest will be paid by wire transfer to an account within the United States. The Bonds are issuable only in fully registered form in denominations of $5,000 or any integral multiple thereof. So long as the book-entry system is in effect with respect to the Bonds, payments of the principal of and premium (if any) and interest on the Bonds will be made by the Trustee to The Depository Trust Company (**"DTC"**) or its nominee. See "APPENDIX G – DTC and the Book-Entry System" below.

Redemption

Optional Redemption. The Series 2008A Bonds maturing on August 15, 2018 are not subject to optional redemption prior to their stated maturity.

The Series 2008A Bonds maturing on August 15, 2027 and on August 15, 2038, are subject to redemption prior to their stated maturity, at the option of the Authority (which option shall be exercised as directed by the Borrower), in whole, or in part (in such amounts and of such maturities as may be specified by the Borrower, or if the Borrower fails to designate such maturities, in inverse order of maturity, and by lot within a maturity) on any date, upon 45 days prior written notice to the Trustee from the Borrower, from any source of available moneys, on or after August 15, 2018, at a redemption equal to the principal amount of Bonds of such Series called for redemption, together with interest accrued thereon to the date fixed for redemption, without premium.

The Series 2008B Bonds are not subject to optional redemption prior to their stated maturity.

Special Redemption. The Bonds are subject to redemption prior to their respective stated maturities at the option of the Authority (which option shall be exercised as directed by the Borrower) in whole on any date, or in part (in such amounts and of such maturities as may be specified by the Borrower, or if the Borrower fails to designate such maturities, in inverse order of maturity, and by lot within a maturity) on any Interest Payment Date, upon 45 days prior written notice to the Trustee from the Borrower, from certain proceeds of insurance, title insurance or condemnation awards required by the Loan Agreement to be deposited in the Special Redemption Account, at a redemption price equal to the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

Mandatory Sinking Account Redemption. The Series 2008A Bonds maturing August 15, 2018 are subject to mandatory redemption prior to their stated maturity in part by lot on each August 15 on and after August 15, 2017, from mandatory sinking account payments required to be deposited under the Indenture at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

The Series 2008A Bonds maturing August 15, 2027 are subject to mandatory redemption prior to their stated maturity in part by lot on each August 15 on and after August 15, 2019, from mandatory sinking account payments required to be deposited under the Indenture at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

The Series 2008A Bonds maturing August 15, 2038 are subject to mandatory redemption prior to their stated maturity in part by lot on each August 15 on and after August 15, 2028, from mandatory sinking account payments required to be deposited under the Indenture at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

The Series 2008B Bonds maturing August 15, 2017 are subject to mandatory redemption prior to their stated maturity in part by lot on each August 15 on and after August 15, 2009, from mandatory sinking account payments required to be deposited under the Indenture at the principal amount thereof together with interest accrued thereon to the date fixed for redemption, without premium.

The mandatory sinking account payments to be made are shown below under the caption "Debt Service Requirements."

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

Each notice of redemption shall state the redemption date, the place or places of redemption, the maturities, the date of issue of the Bonds, the CUSIP number (if any) of the maturity or maturities and, if less than all of any such maturity, the distinctive numbers (or inclusive ranges of distinctive numbers) of the Bonds of such maturity, to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall also state that on said date there will become due and payable on each of said Bonds the Redemption Price thereof or of said specified portion of the principal amount thereof in the case of a fully registered Bond to be redeemed in part only, together with interest accrued thereon to the redemption date, and that from and after such redemption date interest thereon shall cease to accrue, and shall require that such Bonds be then surrendered. Neither the Authority nor the Trustee shall have any responsibility for any defect in the CUSIP number that appears on any Bond or in any redemption notice with respect thereto, and any such redemption notice may contain a statement to the effect that CUSIP numbers have been assigned by an independent service for convenience of reference and that neither the Authority nor the Trustee shall be liable for any inaccuracy in such numbers.

The Authority shall have the right to rescind (which right shall be exercised as directed by the Borrower) any redemption by written notice to the Trustee, on or prior to the date fixed. Any such notice of redemption shall be cancelled and annulled if for any reason funds will not be or are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Borrower, Authority and the Trustee shall have no liability to the Bondholders or any other party related to or arising from such rescission of redemption.

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

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

Debt Service Requirements

The following table sets forth for the annual debt service requirements for the Bonds assuming mandatory sinking account redemption, but no optional redemption. Totals may not foot due to rounding.

	Series 2008A Bonds		Series 2008B Bonds		
Year Ending (August 15)	Principal Payments	Interest	Principal Payments	Interest	Total Debt Service
2009	-	$ 1,923,207	$ 25,000	$ 269,814	$ 2,218,021
2010	-	1,995,258	75,000	278,460	2,348,718
2011	-	1,995,258	75,000	274,073	2,344,330
2012	-	1,995,258	705,000	269,685	2,969,943
2013	-	1,995,258	750,000	228,443	2,973,700
2014	-	1,995,258	790,000	184,568	2,969,825
2015	-	1,995,258	840,000	138,353	2,973,610
2016	-	1,995,258	885,000	89,213	2,969,470
2017	$ 300,000	1,995,258	640,000	37,440	2,972,698
2018	990,000	1,982,133	-	-	2,972,133
2019	1,035,000	1,938,820	-	-	2,973,820
2020	1,085,000	1,885,518	-	-	2,970,518
2021	1,140,000	1,829,640	-	-	2,969,640
2022	1,200,000	1,770,930	-	-	2,970,930
2023	1,265,000	1,709,130	-	-	2,974,130
2024	1,330,000	1,643,983	-	-	2,973,983
2025	1,395,000	1,575,488	-	-	2,970,488
2026	1,470,000	1,503,645	-	-	2,973,645
2027	1,545,000	1,427,940	-	-	2,972,940
2028	1,625,000	1,348,373	-	-	2,973,373
2029	1,715,000	1,256,560	-	-	2,971,560
2030	1,810,000	1,159,663	-	-	2,969,663
2031	1,915,000	1,057,398	-	-	2,972,398
2032	2,025,000	949,200	-	-	2,974,200
2033	2,135,000	834,788	-	-	2,969,788
2034	2,260,000	714,160	-	-	2,974,160
2035	2,385,000	586,470	-	-	2,971,470
2036	2,520,000	451,718	-	-	2,971,718
2037	2,660,000	309,338	-	-	2,969,338
2038	2,815,000	159,048	-	-	2,974,048
Total	$36,620,000	$43,979,204	$4,785,000	$1,770,047	$87,154,251

SECURITY FOR THE BONDS

California Health Facility Construction Loan Insurance Program

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

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

Insurance Law section 129050, subsection (a) requires that a loan must be secured by a first mortgage, first deed of trust, or priority lien on an interest of the borrower in real property and any other security agreement as the Office may require. For this purpose, the Borrower will grant a security interest in the Gross Revenues under the Loan Agreement and the Borrower will enter into the Deed of Trust. See "—Pledge Under the Indenture; Gross Revenues" and "—Deed of Trust" herein and "APPENDIX C – Summary of Principal Legal Documents" hereto.

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

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

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

Benefits Upon Default*.* If there is an event of default as specified under the Indenture (**"Event of Default"**), the Trustee must notify the Office. The Trustee also must notify the Office if 30 days prior to an interest or principal payment date there are not sufficient available moneys held by the Trustee in the Revenue Fund (other than in the Bond Reserve Account) to make the next payment of principal or interest on the Bonds.

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

Following an Event of Default, the Office may:

- continue to approve such transfers or make such payments described in the preceding paragraph as are necessary to provide for the timely payment of the principal of and interest on the Bonds,
- accept title to the Facilities from the Trustee upon foreclosure pursuant to the Deed of Trust or otherwise (see "BONDHOLDERS' RISKS -- Trustee's Conditional Obligation to Foreclose" herein for information about the circumstances in which the Trustee will foreclose),
- accept an assignment of the security interest created under the Deed of Trust and of all claims under the Loan Agreement, or
- instruct the Trustee to declare the principal of all Bonds then outstanding and the interest due thereon to be immediately due and payable and make such payment from the HFCLIF.

The Regulatory Agreement provides that, upon receipt by the Office of title to the Facilities or assignment of the security interest in the Deed of Trust and upon surrender of the Bonds to the Office, the Office shall notify the Treasurer of the State and request the Treasurer to issue debentures to the Trustee for the benefit of the holders of the Bonds so surrendered in an amount equal to the total face value of the outstanding principal of and accrued but unpaid interest on the Bonds, for the term and at the interest rate payable on the Bonds.

While the Office has not requested the issuance of and the Treasurer of the State has not issued any such debentures and while definitive procedures for their issuance have not been established, including procedures covering matters such as compliance with the provisions of the Code and the Treasury Regulations promulgated thereunder, the Office has all necessary power to establish such procedures, and it is expected that such procedures would be established and that interest on such debentures would not be includable in the gross income of the holders of the Bonds for purposes of federal income taxation and would be exempt under the law as in effect on the date hereof from State personal income taxes. Upon the occurrence of certain Events of Default under the Indenture, there is the possibility that the interest on the Bonds could become subject to federal income taxation. The Indenture provides that there shall be no acceleration of the principal of and interest on the Bonds in the Event of Default under the Indenture without the consent of the Office. Therefore, if an Event of Default resulted in the Bonds being declared taxable by the Internal Revenue Service (the "**IRS**") and if the Office did not consent to an acceleration, the Bondholders would continue to receive interest payments, but those interest payments would not be excludable from gross income for federal income tax purposes. See "APPENDIX C - Summary of Principal Legal Documents" and "BONDHOLDERS' RISKS - Loss of Tax Exemption" herein.

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

At the request of the Office, Mercer Oliver Wyman ("**Mercer**") completed a study in December of 2006 (the "**2006 Actuarial Study**") to evaluate, among other matters, (1) the reserve sufficiency of the HFCLIF as of June 30, 2006; and (2) the risk to the State General Fund from the Program. In the 2006 Actuarial Study, Mercer concluded that the HFCLIF, as of June 30, 2006, which at that time had approximately $174 million, appeared to be sufficient, assuming "normal and expected" conditions, and that the HFCLIF should maintain a positive balance over a period of 30+ years. Even assuming abnormal and unexpected events, Mercer found that HFCLIF reserves would protect against any General Fund losses for 15 years. As of June 30, 2008, the principal amount of loans insured under the Program was approximately $1,374,064,775 and the cash balance of the HFCLIF was approximately $187,183,615. A copy of the 2006 Actuarial Study is available upon request to: Office of Statewide Health Planning and Development, Cal-Mortgage Loan Insurance Division, 300 Capitol Mall, Suite 1500, Sacramento, CA 95814, Telephone: (916) 319-8800; e mail: cminsure@oshpd.ca.gov.

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

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

See "RATING" herein for a discussion of the rating the Bonds are expected to receive due to the insurance by the Office of the Bonds.

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

Bankruptcy. In the event of bankruptcy of the Borrower, the rights and remedies of the Holders of the Bonds are subject to various provisions of the Federal Bankruptcy Code. If the Borrower were to file a petition in bankruptcy, payments made by the Borrower during the 90-day (or perhaps one-year) period immediately preceding the filing of such petition may be avoidable as preferential transfers to the extent such payments allow the recipients thereof to receive more than they would have received in the event of the Borrower's liquidation. Security interests and other liens granted to a Trustee and perfected during such preference period also may be avoided as preferential transfers to the extent such security interest or other lien secures obligations that arose prior to the date of such perfection. Such a bankruptcy filing would operate as an automatic stay of the commencement or continuation of any judicial or other proceeding against the Borrower and its property and as an automatic stay of any act or proceeding to enforce a lien upon or to otherwise exercise control over its property as well as various other actions to enforce, maintain or enhance the rights of a Trustee. If the bankruptcy court so ordered, the property of the Borrower, including accounts receivable and proceeds thereof, could be used for the financial rehabilitation of the Borrower despite any security interest of a Trustee therein. The rights of the Trustee to enforce its security interests and other liens it may have could be delayed during the pendency of the rehabilitation proceeding.

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

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

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

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

1. affiliating with, merging into, or consolidating with any individual, company, organization, partnership or other legal entity;

2. transferring cash or cash equivalents to any entity, including but not limited to a subsidiary or an affiliate of the Borrower, without first satisfying certain financial covenants;

3. selling, leasing, subleasing or otherwise disposing of all or portions of the real property subject to the Deed of Trust and, except in the ordinary course of business (which the Office in its sole discretion may define and, from time to time, redefine), buildings, improvements and tangible personal property located on such property;

4. acquiring by purchase, construction, merger or consolidation any property or equipment, except in the ordinary course of business;

5. acquiring by gift certain real property; and

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

Additionally, upon the occurrence of an event of default under the Regulatory Agreement, the Deed of Trust, the Indenture or the Loan Agreement, the Office may assume or direct managerial or financial control over the Borrower. Under such circumstances, the Office may terminate and replace the existing Management Agent with a new Management Agent selected by the Office and may remove and replace a majority of the Borrower's Board of Directors.

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

For a further description of the provisions of the Loan Agreement, the Indenture and the Deed of Trust, see "APPENDIX C - Summary of Principal Legal Documents."

Pledge Under the Indenture; Gross Revenues

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

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

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

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

Revenue Fund to secure the payment of the principal of and interest on the Bonds and Parity Debt of the Borrower.

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

Bond Reserve Accounts

A Bond Reserve Account, including the “Series 2008A Reserve Subaccount” and “Series 2008B Reserve Subaccount” therein, will be established and funded under the terms of the Indenture. Amounts on deposit in the Series 2008A Reserve Subaccount will be used only to make payments with respect to the Series 2008A Bonds. While the Series 2008B Bonds are outstanding, amounts on deposit in the Series 2008B Reserve Subaccount will be used only to make payments with respect to the Series 2008B Bonds. Upon payment in full of the Series 2008B Bonds, any amounts remaining in the Series 2008B Reserve Subaccount will be held by the Trustee and used, as needed, to make payments with respect to the Series 2008A Bonds.

On the date of delivery of the Series 2008A Bonds, an amount equal to the Series 2008A Reserve Requirement will be deposited in the Series 2008A Reserve Subaccount. The Series 2008A Reserve Requirement is defined in the Indenture to be, as of any date of calculation, an amount equal to (i) the least of (a) 10% of the initial principal amount of the Series 2008A Bonds, (b) 125% of average annual bond service on all Series 2008A Bonds Outstanding as of such date, or (c) Maximum Annual Bond Service on all Series 2008A Bonds Outstanding as of such date, (ii) less the amount on deposit in the Series 2008B Reserve Subaccount.

On the date of delivery of the Series 2008B Bonds, an amount equal to the Series 2008B Reserve Requirement will be deposited in the Series 2008B Reserve Subaccount. The

Series 2008B Reserve Requirement is defined in the Indenture to be, as of any date of calculation, an amount equal to the least of (a) 10% of the initial principal amount of the Series 2008B Bonds, (b) 125% of average annual bond service on all Series 2008B Bonds Outstanding as of such date, or (c) Maximum Annual Bond Service on all Series 2008B Bonds Outstanding as of such date.

"Maximum Annual Bond Service" is defined in the Indenture as, as of any date of calculation, the sum of (a) the interest falling due on the Outstanding Bonds (assuming that all then Outstanding Serial Bonds are retired on their respective maturity dates and that all then Outstanding Term Bonds are retired at the times and in the amounts provided for by Mandatory Sinking Account Payments), (b) the principal amount of then Outstanding Serial Bonds falling due by their terms, and (c) the aggregate amount of all Mandatory Sinking Account Payments required; all as computed for the Bond Year in which such sum shall be largest. Each subaccount of the Bond Reserve Account is required to be maintained in an amount equal to the applicable Bond Reserve Account Requirement, and the Loan Agreement requires the Borrower to make up any deficiencies therein within one year.

See "APPENDIX C – Summary of Principal Legal Documents - Indenture."

Rate Covenant

Under the Regulatory Agreement, the Borrower is required to fix, charge and collect rates, fees and charges which are reasonably projected to be sufficient in each fiscal year beginning after 2010 to produce a debt service coverage of at least 1.25 times Maximum Aggregate Annual Debt Service, measured as of the end of such fiscal year. For information relating to the rate covenant, see "APPENDIX C – Summary of Principal Legal Documents." The Bonds will continue to be insured by the Office in the manner described above even if an Event of Default were to occur.

Other Indebtedness

See "APPENDIX A – Information Concerning the Borrower" for information concerning short-term and long-term debt of the Borrower.

The Borrower may incur other obligations or indebtedness, in some cases on a parity basis with the obligations of the Borrower under the Loan Agreement, subject to the conditions set forth in the Regulatory Agreement with respect to the Bonds. See "APPENDIX C – Summary of Principal Legal Documents."

THE BONDS ARE SPECIAL OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM AND SECURED BY THE PLEDGE OF REVENUES PURSUANT TO THE INDENTURE. NEITHER THE AUTHORITY, THE ASSOCIATION OF BAY AREA GOVERNMENTS ("ABAG") OR THE MEMBERS OF THE AUTHORITY OR ABAG SHALL BE DIRECTLY OR INDIRECTLY OR CONTINGENTLY OR MORALLY OBLIGATED TO USE ANY OTHER MONEYS OR ASSETS OF THE AUTHORITY, ABAG OR ANY OF ITS MEMBERS TO PAY ALL OR ANY PORTION OF DEBT SERVICE DUE ON THE BONDS. THE BONDS AND THE OBLIGATION TO PAY PRINCIPAL OF AND INTEREST THEREON AND ANY REDEMPTION, PREMIUM WITH RESPECT THERETO DO NOT CONSTITUTE AN INDEBTEDNESS OR AN OBLIGATION OF THE AUTHORITY OR ABAG, THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF, WITHIN THE MEANING OF ANY CONSTITUTIONAL OR STATUTORY DEBT LIMITATION, OR A CHARGE AGAINST THE GENERAL CREDIT OR

TAXING POWERS OF ANY OF THEM, BUT SHALL BE PAYABLE SOLELY FROM THE REVENUES DESCRIBED HEREIN. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO COMPEL THE EXERCISE OF THE TAXING POWER OF THE STATE OF CALIFORNIA OR ANY POLITICAL SUBDIVISION THEREOF TO PAY ANY PRINCIPAL OF, PURCHASE PRICE, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. NEITHER THE AUTHORITY NOR ABAG HAVE ANY TAXING POWER.

THE BORROWER

For more detailed information concerning the history, governance, organization, facilities, operations, and financial performance of the Borrower, see "APPENDIX A - Information Concerning the Borrower" and "APPENDIX B – Audited Financial Statements of the Borrower."

THE TRUSTEE

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

Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application by the issuer of any of the Bonds authenticated or delivered pursuant to the Indenture or for the use or application of the proceeds of such Bonds by the Authority or the Borrower. The Trustee has not evaluated the risks, benefits, or propriety of any investment in the Bonds and makes no representation, and has reached no conclusions, regarding the value or condition of any assets pledged or assigned as security for the Bonds, or the investment quality of the Bonds, about all of which the Trustee expresses no opinion and expressly disclaims the expertise to evaluate.

BONDHOLDERS' RISKS

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

General

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

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

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

For information concerning the Borrower, its operations and management, see "APPENDIX A – Information Concerning the Borrower." See also "APPENDIX B – Audited Financial Statements of the Borrower."

Additional Debt

The Bonds are payable solely from Revenues, which consist primarily of Loan Repayments to be made by the Borrower pursuant to the Loan Agreement. As described above in "SECURITY FOR THE BONDS," the Regulatory Agreement permits the issuance of additional indebtedness secured equally and ratably with the Loan Agreement provided certain conditions are met. See "APPENDIX C – Summary of Principal Legal Documents." While the Regulatory Agreement permits the Borrower to incur such parity debt only if certain financial and other requirements are met, such indebtedness would increase debt service requirements, reduce Bondholders' interest in the collateral securing the Bonds and could adversely affect debt service coverage on the Bonds. The Borrower currently has no specific plans for substantial capital expansions other than the Project to be financed with proceeds of the Bonds.

Dependence Upon Governmental Funding

A portion of the Borrower's services are provided to persons eligible for certain benefits that are funded under Federal and State health programs. A significant portion of the Borrower's revenues are derived from the health programs which are funded through State and Federal resources, including Medi-Cal and Medicare. As a result, the success of the Borrower's operations is significantly dependent upon continued funding of these programs by the State, and Federal governments.

The State of California from time to time has experienced deficits in its operations and the future of all health services programs that depend upon funding from the State is uncertain. It is also possible that such programs may be the subject of cost reduction and payment experimentation, including potential changes involving managed care. As the Borrower's ability to make Loan Repayments is significantly dependent upon the continued funding of its programs by the State, any reduction in funding for various health programs currently funded by the State could have a negative impact on the ability of the Borrower to meet its obligations with respect to the Bonds.

The insurance provided by the Office is also dependent upon the financial strength of the State of California.

Licensing, Surveys, Facility Inspections and Audits

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

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

Loss of Tax Exemption

The Borrower has covenanted and agreed to comply with the provisions of the Code relating to the exclusion from gross income for federal income tax purposes of the interest payable on the Series 2008A Bonds. The financing documents contain provisions and procedures designed to ensure compliance with such covenant. See "TAX MATTERS" herein. However, the Borrower's covenants to comply with the requirements of the Code are nonrecourse to the Borrower. Consequently, interest on the Series 2008A Bonds may become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Series 2008A Bonds by reason of the Borrower's failure to comply with the requirements of federal tax law, and neither the Authority, the Trustee nor the Bondholders will have remedies available to them to mitigate the adverse economic effects to the Bondholders of such inclusion by reason of the Borrower's noncompliance.

The tax exemption of the Series 2008A Bonds is based upon the ownership of the Project by a qualified 501(c)(3) organization. Sale of the Project to an entity which is not a qualified 501(c)(3) organization could result in the inclusion in gross income for federal income tax purposes of the interest payable on the Bonds. The financing documents contain provisions and procedures designed to avoid this result, but circumstances could arise, including but not limited to foreclosure of the liens by secured parties, which would prevent the Borrower from controlling the disposition of the Project. Consequently, interest on the Series 2008A Bonds may become includable in gross income for purposes of federal income taxation retroactive to the date of issuance of the Series 2008A Bonds, and neither the Authority, the Trustee nor the Bondholders will have remedies available to them to mitigate the adverse economic effects to the Bondholders of such inclusion.

Conditional Use of Facilities

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

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

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

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

Bankruptcy

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

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

Affiliation, Merger, Acquisition and Divestiture

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

Claims and Insurance Coverage

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

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

See "APPENDIX A - Information Concerning the Borrower - INSURANCE COVERAGE".

Seismic Risk

According to the Seismic Safety Commission of the State of California, the State is mapped into seismic hazard zones 3 and 4. Seismic hazard zones account for geographical variations in the expected levels of earthquake ground shaking and are based on the historical records of earthquakes and the location of known earthquake faults. Several earthquake faults run through the County. Local building codes take into account the likelihood of ground shaking and are intended to provide safety to the building occupants. In the event of an earthquake, buildings five stories or more are expected to suffer the greatest damage in the location area.

There can be no assurance that the occurrence of a significant seismic event in any area in which the Borrower operates would not have a material adverse effect on the facilities, the operations of the Borrower or the ability of the Borrower to make the Loan Repayments.

Environmental Laws and Regulations

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

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

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

See " - Trustee's Conditional Obligation to Foreclose" with respect to limitations on the circumstances in which the Trustee will foreclose under the Deed of Trust.

Trustee's Conditional Obligation to Foreclose

The Trustee is authorized by the Loan Agreement and the Deed of Trust to foreclose on real property owned by the Borrower following certain Events of Default. However, the Trustee is not obligated to take possession unless the Trustee determines that certain conditions relating to its potential liability under applicable environmental laws have been satisfied. See "APPENDIX C -- Summary of Principal Legal Documents".

The Indenture further provides that, so long as the Contract of Insurance is in effect and the Office is not in default thereunder, the Office, as co-beneficiary under the Deed of Trust, may foreclose in place of the Trustee.

Marketability of the Bonds

There can be no guarantee that there will be a secondary market for the Bonds or, if a secondary market exists, that any Bonds can be sold for any particular price. Prices of bond issues for which a market is being made will depend upon then-prevailing circumstances. Such prices could be substantially different from the original purchase price.

No assurance can be given that the market price for the Bonds will not be affected by the introduction or enactment of any future legislation (including without limitation amendments to the Internal Revenue Code), or changes in interpretation of the Internal Revenue Code, or any action of the Internal Revenue Service, including but not limited to the publication of proposed or final regulations, the issuance of rulings, the selection of the Bonds for audit examination, or the course or result of any Internal Revenue Service audit or examination of the Bonds or obligations that present similar tax issues as the Bonds.

Other Factors

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

(i) Shortages of physicians, nurses or other health care professionals;

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

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

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

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

(vi) Unfavorable trends in the national, State or local economy or political climate which in turn may adversely affect the health care programs funded by the Federal and State governments; unfavorable changes in current Federal and State legislation which currently mandate or provide for health programs; increased governmental regulations which could adversely affect the Borrower's ability to provide the level of services forecasted; demographic changes which may affect the Borrower's ability to deliver services to residents; governmental changes or reductions in rates and other methods of reimbursement of the Borrower for services delivered; loss of confidence in the Borrower's ability to deliver quality services by State or federal government officials, health care professionals and the public which would adversely affect the level of revenue forecasted; increased malpractice and other claims; competition by other for-profit or nonprofit entities; and unforeseen major repairs of the Borrower's facilities or increases in insurance or other operating costs without the Borrower obtaining corresponding increases in revenues.

ABSENCE OF MATERIAL LITIGATION

The Authority

To the best knowledge of the Authority, there is no claim or action of any nature now pending against the Authority which seeks to restrain or enjoin the sale or issuance of the Bonds or which in any way contests or affects the validity of the Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Bonds, the use of the Bonds proceeds or the existence or powers of the Authority relating to the issuance of the Bonds.

The Borrower

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

TAX MATTERS

In the opinion of Foley & Lardner LLP, Bond Counsel to the Authority ("**Bond Counsel**"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "**Code**") and is exempt from State of California personal income taxes. Interest on the Series 2008B Bonds is exempt from State of California personal income taxes. Bond Counsel is of the further opinion that interest on the Series 2008A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. A complete copy of the proposed forms of opinions of Bond Counsel for the Bonds is set forth in APPENDIX D hereto.

Series 2008A Bonds purchased, whether at original issuance or otherwise, for an amount greater than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("**Premium Bonds**") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes.

However, the amount of tax exempt interest received, and a beneficial owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such beneficial owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances. To the extent the issue price of any maturity of the Series 2008A Bonds is less than the amount to be paid at maturity of such Series 2008A Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Series 2008A Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each beneficial owner thereof, is treated as interest on the Series 2008A Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Series 2008A Bonds is the first price at which a substantial amount of such maturity of Series 2008A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Series 2008A Bonds on the basis of a constant rate compounded on periodic compounding (with straight-line interpolations between compounding dates). In general, the length of the interval between periodic compounding dates cannot exceed the interval between debt service payments on such Series 2008A Bonds and must begin or end on the date of such payments. The accruing original issue discount is added to the adjusted basis of such Series 2008A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Series 2008A Bonds. Beneficial owners of the Series 2008A Bonds should consult with their own tax advisors with respect to the tax consequences of ownership of Series 2008A Bonds with original issue discount, including the treatment of purchasers who do not purchase such Series 2008A Bonds in the original offering to the public at the first price at which a substantial amount of such Series 2008A Bonds are sold to the public.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Series 2008A Bonds. The Borrower and the Authority have covenanted to comply with certain restrictions and requirements designed to assure that the interest on the Series 2008A Bonds will not be included in gross income for federal income tax purposes. Failure to comply with these covenants may result in such interest being included in gross income for federal income tax purposes, possibly from the original issuance date of the Series 2008A Bonds. The opinion of Foley & Lardner LLP, as Bond Counsel, assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) or any other matters coming to Bond Counsel's attention after the date of issuance of the Series 2008A Bonds may adversely affect the value of, or the tax status of interest on, the Series 2008A Bonds.

The opinion of Bond Counsel relies on factual representations made by the Borrower, the Authority and other persons. These factual representations include but are not limited to certifications by the Borrower regarding its reasonable expectations regarding the use and investment of bond proceeds, its reasonable expectations regarding payment of the Series 2008A Bonds, and its reasonable needs to maintain funds. Bond Counsel has not verified these representations by independent investigation. Bond Counsel does not purport to be an expert in asset valuation and appraisal, financial analysis, financial projections or similar disciplines. Failure of any of these factual representations to be correct may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the original issuance date of the Series 2008A Bonds.

In addition, Bond Counsel has relied, among other things, on the opinions of Folger Levin & Kahn LLP, counsel to the Borrower, regarding the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Code. Such opinions are subject to a number of qualifications and limitations.

Bond Counsel has also relied upon representations of the Borrower concerning its "unrelated trade or business" activities as defined in Section 513(a) of the Code. Neither Bond Counsel nor Counsel of the Borrower has given any opinion or assurance concerning Section 513(a) of the Code and neither Bond Counsel nor Counsel to the Borrower can give or has given any opinion or assurance about the future activities of the Borrower, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the resulting changes in enforcement thereof by the Internal Revenue Service.

Failure of the Borrower to be organized and operated in accordance with the Internal Revenue Service's requirements for the maintenance of its status as an organization described in Section 501(c)(3) of the Code, or to operate the facilities financed by the Series 2008A Bonds in a manner that is substantially related to the charitable purpose of the Borrower under Section 513(a) of the Code, may result in interest payable with respect to the Series 2008A Bonds being included in federal gross income, possibly from the date of the original issuance of the Series 2008A Bonds.

Certain requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Agreement and other relevant documents may be changed and certain actions may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than Foley & Lardner LLP.

Although Bond Counsel is of the opinion that interest on the Series 2008A Bonds is excluded from gross income for federal income tax purposes and that interest on the Series 2008A Bonds and the Series 2008B Bonds is exempt from State of California personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a beneficial owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the beneficial owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Series 2008A Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Prospective purchasers of the Series 2008A Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Series 2008A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("**IRS**") or the courts and is not a guarantee of result. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Borrower or about the effect of future changes in the

Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Borrower have covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Authority, the Borrower or the beneficial owners regarding the tax-exempt status of the Series 2008A Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and the Borrower and its appointed counsel, including the beneficial owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority or the Borrower legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Series 2008A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Series 2008A Bonds, and may cause the Authority, the Borrower or the beneficial owners to incur significant expense.

Recent legislation amended section 6049 of the Code to require information reporting for payments of tax-exempt interest applicable to interest paid after December 31, 2005. The IRS has published transitional guidance for information reporting requirements for payments of interest on tax-exempt bonds, including circumstances under which "backup withholding" may be required.

APPROVAL OF LEGALITY

Legal matters incident to the delivery of the Bonds are subject to the approving opinion of Foley & Lardner LLP, San Francisco, California, as Bond Counsel. Certain legal matters will be passed upon for the Authority by Chapman and Cutler LLP, San Francisco, California. Jones Hall, A Professional Law Corporation, San Francisco, California will pass upon certain matters for the Underwriter. Certain legal matters will be passed upon for the Borrower by Folger Levin & Kahn LLP, San Francisco, California, counsel to the Borrower. Certain legal matters will be passed upon for the Office by the Attorney General of the State of California.

Fees payable to Bond Counsel and Underwriter's Counsel are contingent upon the sale and delivery of the Bonds.

RATING

Standard & Poor's Rating Services ("**S&P**") has assigned its municipal bond rating of "A+" to the Bonds with the understanding that, upon delivery of the Bonds, payment of the principal of and interest on the Bonds will be insured by the Office. The rating reflects S&P's current assessment of the creditworthiness of the Office and its ability to pay claims under the Program.

There is no assurance that the rating mentioned above will remain in effect for any given period of time or that it might not be lowered or withdrawn entirely by the rating agency, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of any rating might have an adverse effect on the market price or marketability of the Bonds.

UNDERWRITING

The Bonds are being purchased by Cain Brothers & Company, LLC (the **"Underwriter"**) at a purchase price of $41,032,355 (representing the aggregate principal amount of the Bonds, less an Underwriter's discount in the amount of $372,645). The Bond Purchase Contract provides that the Underwriter will purchase all of the Bonds, if any are purchased. The obligation of the Underwriter to make such purchase is subject to certain terms and conditions set forth in the Bond Purchase Contract.

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

The Underwriter is not involved with the investment of funds for the Authority or the Borrower nor is the Underwriter receiving any fees in connection therewith.

FINANCIAL STATEMENTS

The audited financial statements of the Borrower for fiscal years ending June 30, 2007 and 2006 (the "**Financial Statements**") are included in "APPENDIX B" and have been audited by Good & Fowler, LLP, South San Francisco, California (the "**Auditor**"). Investors should review the Financial Statements prior to purchasing the Bonds. The Financial Statements should be read in their entirety.

FEASIBILITY STUDY

As part of the Borrower's applications to the Office for insurance, a Market Study and Financial Feasibility Report dated February 26, 2008, with Sensitivity Analysis dated August 7, 2008 (together, the "**Feasibility Study**"), was prepared for the Borrower by HFS Consultants, Oakland, California. The conclusions of the Feasibility Study were based on certain assumptions, as outlined in the Feasibility Study. The Authority has not reviewed the Feasibility Study or financial information provided by the Borrower. There can be no assurance that as a result of the Feasibility Study or issuance of insurance by the Office that the Borrower will be able to meet its Loan Repayments.

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

CONTINUING DISCLOSURE

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

The Borrower has covenanted for the benefit of Holders of the Bonds to provide certain financial information and operating data relating to the Borrower on an annual basis (an **"Annual Report"**), and to file notices of the occurrence of certain enumerated events, if material. The notices of material events will be filed by the Borrower with the Municipal Securities Rulemaking Board and with the appropriate State information depository, if any.

The specific nature of the information to be contained in an Annual Report or the notices of material events is set forth in "APPENDIX E – Form of Continuing Disclosure Agreement." These covenants have been made in order to assist the Underwriter in complying with Securities and Exchange Commission Rule 15c2-12(b)(5).

This will be the Borrower's first undertaking with regard to said Rule.

MISCELLANEOUS

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

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

ABAG FINANCE AUTHORITY FOR
NONPROFIT CORPORATIONS

By: /s/ Clarke J. Howatt
Secretary

APPROVED:

INSTITUTE ON AGING

By: /s/ David Werdegar
President

APPENDIX A

INFORMATION CONCERNING THE BORROWER

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

INTRODUCTION

Institute on Aging ("IOA") is a California nonprofit public benefit corporation exempt from federal income tax as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986. IOA was incorporated in 1985 to assist seniors in the San Francisco area. IOA provides programs designed to preserve and enhance independent living for seniors. Specifically, IOA's purposes include, but are not limited to, the following:

1. Developing a national model of health and social services dedicated to improving the quality of life and care of the elderly;

2. Improving the health and well-being of the elderly by providing easily accessible, integrated, medical, psychological and social services;

3. Conducting teaching and research programs in the field of geriatric medicine and related activities;

4. Providing geriatric consultative and planning services for community agencies, public bodies and private industry; and

5. Developing innovative programs intended to reduce the inappropriate or premature institutionalization of the elderly.

As described below, IOA currently operates 18 distinct programs at six leased locations in western San Francisco: an Adult Day Health Center; a Case Management Program; two all-inclusive programs known as Senior Health Centers; and community outreach programs and administrative offices. Most of these programs will be moving operations to the site of the Project. See "EXISTING FACILITIES AND OPERATIONS" and "THE PROJECT" below.

EXISTING FACILITIES AND OPERATIONS

IOA currently operates programs for seniors at the following leased locations in western San Francisco:

1. Adult Day Health Center at 3600 Geary Boulevard;
2. Social Adult Day Center at 3698 California Street;
3. Case Management Program at 3626 Geary Boulevard;
4. SeniorHealth Center at 2700 Geary Boulevard;
5. SeniorHealth Center at 1426 Fillmore Street; and

6. Community outreach programs, as well as administrative offices, at 3330 Geary Boulevard.

All of these programs, with the exception of the On Lok SeniorHealth by IOA Adult Day Health Center at 1426 Fillmore Street and the Irene Swindells Center for Adult Day Services at 3698 California Street, will be moving operations to the site of the Project at 3575 Geary Boulevard. See "THE PROJECT" below.

IOA operates the following 18 distinct programs.

Daytime Senior Health Centers

<u>The Ruth Ann Rosenberg Adult Day Health Center (3600 Geary Boulevard)</u>. This is an adult day health center focusing on older adults with major health problems. It offers nursing, physical, occupational, and speech therapies as well as therapeutic recreational activities and some personal care services, allowing participants to attend from two to five days per week, depending on the service. The center allows participants to maintain optimal levels of health and independence while residing in the community. Transportation and noon meals are also included. Medi-Cal and private pay clients are welcome.

<u>The Alzheimer's Day Center (3600 Geary Boulevard)</u>. The Alzheimer's Day Center is devoted to persons with moderate to severe memory loss or dementia. This program offers structured and interactive activities designed to maximize the mental and physical abilities of each participant. Support groups and respite care for caregivers are also available through this program. The Alzheimer's Day Center allows participants to attend between two to five days per week. Transportation and noon meals are provided.

<u>The Irene Swindells Center for Adult Day Services (3698 California Street)</u>. The Irene Swindells Center is a social day program for seniors with mild to moderate dementia and no significant health needs. It provides structured activities in a supportive environment designed to reduce isolation while promoting the physical health, mental stimulation, and creativity of each participant. This is a private pay program and transportation is available for an additional fee.

<u>The On Lok Senior Health Provided by IOA (1426 Fillmore St. and 2700 Geary Boulevard)</u>. IOA administers a PACE model Health Management Organization plan which offers acute and long-term care for people 55 years and older. Located in two of IOA's adult day health centers, this capitated health plan provides for adult day health care, nursing, social work, physical, occupational and speech therapies, as well as personal care, primary care specialists, podiatry, audiology and dental care. It is designed for frail seniors who are eligible for nursing home placement but would prefer to stay at home. Transportation and noon meals are provided through this program. This health plan is funded through Medicare and Medi-Cal.

Annual Participant Visits For Adult Day and PACE Programs

Fiscal Year ending June 30	Annual Participant Visits
2007	57,900
2006	54,958
2005	55,910
2004	51,836

Community Outreach

Consortium for Elder Abuse Prevention (3330 Geary Boulevard). Through this program IOA offers training to professional and community groups in elder abuse prevention. The program strives to increase awareness of the problem of elder abuse and to empower older adults to avoid and resolve abusive situations.

Neighborhood Resource Centers / Information & Referral. At three centers throughout San Francisco (Richmond, Mission and Western Addition/Marina) IOA offers multi-lingual information and referral services for seniors and disabled adults. Its services include referrals to programs which provide meals, in-home supportive services, legal assistance, housing information, Medicare/Medi-Cal support (e.g. completion of forms), caregiver support and translation services.

Case Management and Support at Home

Linkages (3626 Geary Boulevard). The Linkages program offers case management for disabled adults 18 years of age and older. It is funded in part by the (City and County of San Francisco) Department of Aging and Adult Services. The program seeks to delay or prevent institutional placement of clients through assessment and service coordination.

Multipurpose Senior Services Program (MSSP) (3626 Geary Boulevard). MSSP is a state supported program, offered through IOA, that serves frail Medi-Cal residents from San Francisco who are 65 years of age or older. Recipients of this program are at risk of needing long term care in facilities outside their home, and consistent with its mission, IOA provides case management services to prevent that from taking place.

Older Adults Care Management (OACM) (3335 Birch Street, Palo Alto). OACM is a licensed home health agency providing high-quality home health care, personal care assistance, case management, and consultation services to residents of San Francisco, Santa Clara and San Mateo Counties. A nursing staff provides skilled assessments, establishes nursing care plans, and provides in-home supervision of IOA's home care aides. These are private pay services and are offered seven days per week.

Supportive Services for Elders (SSE) (3330 Geary Boulevard and 1005 A Street #207 in San Rafael). SSE is a private pay program providing personalized assessment, care management and financial/fiduciary services for older adults and their families. The custodial services include tax preparation, real estate management, power-of-attorney and advanced-directives services, as well as estate conservator services including trustee and executor functions.

Psychological Services

Assessment Center (3330 Geary Boulevard). The Assessment Center is a multi-dimensional, community-based geriatric assessment program providing comprehensive evaluations of an individual's functional ability and safety, capacity to make decisions, cognitive and mental health, spiritual values, physical health, socio-environmental issues, and the need for legal and financial planning. As needed, after an assessment by a geriatric care manager, follow-up support will be provided to the client and family. Medicare and other insurance plans reimburse this program.

Friendship Line and the Center for Elderly Suicide Prevention (CESP) (3330 Geary Boulevard). CESP operates a 24-hour telephone support line for adults 60 years of age and older to call when they feel lonely, depressed, isolated, suicidal, experiencing grief, or experiencing a stressful or abusive situation. Outreach services include regularly scheduled telephone calls for emotional support, medication reminders, safety checks, and weekly in-home supportive visits. There is also individual and group grief counseling within this program.

The Mental Health and Aging program (MHA) (3330 Geary Boulevard). The MHA program provides comprehensive mental health services for older and dependent adults including psychological and neuro-psychological testing, group therapy and psychotherapy. The services are provided at the Geary street location and on site at various assisted living and skilled nursing homes as well as patients' homes. The program also offers group support and individual psychological counseling for seniors who have suffered elder abuse.

Other Activities

IOA Research Center (3330 Geary Boulevard). With close ties to UCSF, IOA Research Center conducts studies in community settings with the goal of improving care, promoting greater self-sufficiency for seniors, and serving to inform public policy makers on matters pertaining to geriatric care. Studies include, but are not limited to, outcome research in community settings, evaluating available treatment for Alzheimer's and Parkinson's Diseases as well as smoking cessation programs for the elderly.

The Spiritual Healing Center and the Bay Area Jewish Healing Center (3330 Geary Boulevard). IOA is in the process of developing a multi-faith Spiritual Healing Center modeled after the Bay Area's Jewish Healing Center. This center incorporates spiritual healing for comfort and solace when a senior faces illness or loss. In the same location as the Spiritual Healing Center is the Bay Area Jewish Healing Center, dedicated to providing Jewish spiritual care to those living with illness, to those caring for the ill, and to the bereaved through direct service, education and training, information and referral. The Program's rabbis focus on how Jewish spiritual resources can be used to promote spiritual healing and wholeness. There are monthly group meetings provided in San Francisco and Marin to provide the opportunity to join with other Jewish faith patrons who are seeking comfort, hope, or guidance regarding brokenness in their lives.

Community Living Fund. As of April 2007, the City and County of San Francisco had selected IOA to administer its Community Living Fund. The goal of the Fund is to enable low-income elderly residents and those with disabilities to live independently as long as possible. Many of these clients will be discharged from Laguna Honda Hospital.

Other clients would be candidates for admission to Laguna Honda Hospital. Case managers come from several community based organizations including Catholic Charities, Lighthouse for the Blind, Curry Senior Center, Conard House, and In-home Supportive Services. IOA's role is to receive city funds and pay partner agencies for their services and other providers for services purchased for individual clients. The program has an initial contract that will run from April 2007 through June 2010.

Center for Elders and Youth in the Arts. This is a program which engages seniors and youth with professional artists, painters, writers, poets and actors engage participants at Assisted Living, Residential Housing, Adult Day Health and other older adult service facilities, in year-round visual and performing arts programming. Intergenerational and home projects are also available. Through creative expression, elders remain connected to the community and experience improved physical and emotional well-being.

Community and Professional Health Education Program. This program informs older adults and caregivers about pressing health issues. It provides up-to-date information so elders can make informed decisions about their health and well being. Each year several all-day programs are held to discuss topics such as memory loss and aging, understanding prescription drugs and senior safety.

Employees

As of June 1, 2008, IOA employed approximately 368 full-time equivalent (FTE) employees:

Number of Employees	Function
82	Professional
199	Non-Professional
87	Administrative

IOA operates with three collective bargaining agreements. They are with SEIU United Healthcare Workers West, SEIU Service Employees International Local 521, and Social Services Union Local 1021. Two agreements are in place through 2009 and one is being re-negotiated in summer 2008.

Employee turnover has declined over the last 3 years. In 2007 the turnover rate fell to 14%. This is lower than turnover rates in comparable California non-profit organizations in 2007, which were 17% in Health Care and 23% in Human Services.

IOA continues to foster and benefit from positive employee relations at our various sites. Employees are skilled and dedicated. Information is shared openly and honestly between union leadership and management resulting in collaborative solutions that meet the needs of all parties. There have been no grievances filed in 2008 to date and only two were filed in 2007. One of the grievances filed in 2007 has been resolved, and IOA expects the second matter to be resolved without any material adverse affect to IOA.

Licenses

The following is a list of facilities, license number and issuing departments currently held by IOA.

FACILITY NAME	LICENSE NUMBER	DEPARTMENT
Ruth Ann Rosenberg Adult Day Health Ctr. at 3600 Geary, S.F., CA	070000615	CA. Dept. of Health Services Licensing and Certification
On Lok Senior Health by IOA Adult Day Health Center (PACE) at 1426 Fillmore, S.F., CA	070000556	CA. Dept. of Health Services Licensing and Certification
Institute on Aging Community Clinic at 1426 Fillmore, S.F., CA	220000367	CA. Dept. of Health Services Licensing and Certification
On Lok Senior Health by IOA Adult Day Health Center at 2700 Geary, S.F., CA	70000542	CA. Dept. of Health Services Licensing and Certification
Institute on Aging Community Clinic at 2700 Geary, S.F., CA	220000398	CA. Dept. of Health Services Licensing and Certification
Irene Swindells Ctr. for Adult Day Services at 3698 California, S.F., CA	389200002	CA. Dept. of Social Services Community Care Licensing
Older Adults Care Management at 3335 Birch St., Palo Alto, CA	220000448	CA. Dept. of Health Services Home Health Licensing

THE PROJECT

General

IOA is preparing to consolidate four of its leased facilities and relocate them to a new mixed-use building at 3575 Geary Boulevard (the "Project"). IOA purchased the site (formerly the site of the now demolished Coronet Theater) in 2000 with the intention of consolidating its San Francisco services along Geary Boulevard into one central location. The Project is designed to provide a permanent headquarters for the IOA. The consolidation of service space will provide increased efficiencies, will facilitate integration of programs and will enhance the delivery of services to clients. Additionally, the IOA will enjoy the financial security provided by the ownership of its own facility, as opposed to having third-party leases with multiple properties.

IOA intends to develop the first floor and approximately half of the second floor for its various programs and administrative offices. The Project will also include an underground parking facility. IOA has sold the air rights of the parcel to BRIDGE Housing Corporation ("Bridge"), which will develop and construct a four and a half story residential development on the property. *The residential component of the development is not part of the Project and is not being financed with the proceeds of the Bonds.*

Mixed-Use Development

The Project will offer a wide range of senior health supportive services for low income seniors, and the Bridge development will provide 150 affordable independent living units on the same site. IOA and Bridge envision that significant synergies will be created by combining senior housing with senior health services. At the Geary Street location, Bridge will develop 150 independent living units for low-income seniors, and will serve as the master developer for the entire project. Thirty-five percent of the independent living units will give priority to those seniors who would qualify for IOA's SeniorHealth (PACE) program that will be offered at the Project. Bridge will also lend its expertise in property management by serving as the manager for all the residential units on the site.

Bridge has been leading California in providing affordable housing for over twenty years. To date, Bridge has developed over 11,000 homes throughout the state with an estimated market value of more than $3 billion, including 193 senior affordable units in the City of San Francisco. Bridge provides a range of services and amenities that support its residents and their communities, such as play areas, green space, and new community services.

Design and Construction

<u>Architect.</u> Tsang Architecture (the "Architect") is the architect for the IOA Project. Founded by Ignatius Tsang in 1990, Tsang Architecture specializes in hospital, clinic and adult day center design. The Architect also provides residential and commercial design services. Tsang Architecture believes that design is about creating environments and that architecture is a "wellness" profession. They have previously worked with IOA on renovation and leasehold improvements at its 3600 Geary, 1426 Fillmore, 2700 Geary, and 3698 California Street facilities.

Contractor. The contractor for the Project is Cahill Contractors, Inc. (the "Contractor" or “Cahill”). Recognized as a leader in the Bay Area construction industry for over 90 years, Cahill’s construction experience includes a wide range of commercial and residential structures. The company is now led by Charles Palley and Charles Lochtefeld; both of whom joined the company in the 1980’s.

The Contractor’s contributions to the Bay Area skyline include civic, medical, industrial and educational facilities and various mid-rise and high-rise housing complexes. Their projects vary from six figure tenant improvements to the $150,000,000 San Francisco Hilton Tower and Remodel. Cahill has extensive experience in constructing medical facilities, medical office buildings as well as affordable and market-rate housing.

IOA, Bridge and the Contractor are parties to a "Pre-Construction and Construction Services Agreement Guaranteed Maximum Cost" (the "Construction Contract"), effective July 1, 2008. The Construction Contract provides for a Guaranteed Maximum Cost ("GMC") of $24479,000 (including a contractor's fee of 3.38% and a contingency of .50%) for the Project. IOA will also carry an owner’s contingency of 5.2%.

Cahill has submitted an estimated draw schedule outlining the approximate payment amounts per month. It will invoice IOA on a monthly basis and be paid from the Project Fund.

Pursuant to the Construction Contract, the Contractor has agreed to provide 100% payment and 100% performance bonds.

Permits

The Project is being built pursuant to a conditional use permit from the City of San Francisco dated April 6, 2006. The conditional use permit incorporates a final environmental impact report which found that the Project would cause no significant unmitigated environmental impacts under the California Environmental Quality Act. No further discretionary approvals are required.

Construction is anticipated to begin in September 2008. IOA has received final building permits from the City of San Francisco for Site Development, Grading/Shoring/ Excavation, and Foundation/Structural. It anticipates receiving the Architectural/ Mechanical Electrical and Plumbing permit in August 2008.

Schedule

Construction is scheduled to begin in September 2008, and the Project is scheduled to open in summer 2010.

Financing

The total budget for design, construction and equipping the Project is $30 million, including a contingency (construction and owner) of approximately 6.5%.

IOA expects to pay budgeted Project costs with Bond proceeds remaining after funding capitalized interest on the Bonds, refinancing prior debt of the Borrower, establishing debt service reserve accounts for the Bonds, paying a premium to the Office, and paying the costs of issuing the Bonds.

SERVICE AREA AND COMPETITION

A Market Study and Financial Feasibility Analysis dated February 26, 2008, with Sensitivity Analysis dated August 7, 2008 (together, the "Feasibility Study"), was prepared for IOA by HFS Consultants, Oakland, California. A copy of the Feasibility Study is included in this Official Statement as Appendix F. Investors should review the Feasibility Study in its entirety prior to purchasing the Bonds.

GOVERNANCE AND MANAGEMENT

IOA is a nonprofit public benefit corporation governed by a Board of Directors (the "Board") that has not less than seven and not more than forty directors. Each of these directors serves a three-year term, which is staggered so that one-third of the directors will be appointed each year. The Board holds an annual meeting and at least three other regular meetings each year. In addition to the Executive Committee, which transacts all regular business of IOA, there is a Nominating Committee and other standing committees as deemed necessary by the Board. The principal officers of IOA consist of the Chair, President/CEO, one or more Vice Chairs, a Secretary and a Treasurer

IOA is currently governed by a thirty member Board of Directors, with two vacancies. The current members of the Board of Directors are listed below:

Name	Years Affiliated	Term Ends	Occupation/Affiliation
Robert L. Sockolov, Chair	8	Jun-09	Rochester Big and Tall, retired
Anthony Wagner, Vice Chair,	13	Jun-09	Kaiser Foundation Health Plan, retired
Barbara Schraeger, Vice Chair,	12	Jun-11	California Comm. On Judicial Performance
Allen S. Feder, Treasurer	12	Jun-11	Allen S. Feder and Co., Inc.
Diana Whitehead, Secretary	8	Jun-09	SBC Communications, retired
Margery D. Anson	2	Jun-09	Community Volunteer
Meryl Brod, PhD	3	Jun-11	The Brod Group
Boone Callaway	1	Jun-11	Callaway & Wolf
Kenneth J. Colvin	18	ex-officio	Colvin Distributing Company
Belva Davis	2	Jun-09	Broadcast Journalist
Libby Denebeim	4	Jun-10	Educator, retired
Irene Dietz	7	ex-officio	Real Estate Sales
Geraldine G. Earp	8	Jun-09	Dept. of Social Services, retired
Lawrence Z. Feigenbaum, MD	7	Jun-10	UCSF School of Medicine (Professor Emeritus)
Irwin J. Gibbs	17	ex-officio	Gibbs-McCormick, Inc.
Anne W. Halsted	4	Jun-10	United Leasing International, Inc., retired
Stanley Herzstein	21	ex-officio	Koret of California, retired
Ruth Kasle	1	ex-officio	Older Adults Care Management
Dick Kuchen	3	Jun-11	Wells Fargo Bank

C. Seth Landefeld, MD	11	ex-officio	UCSF Division of Geriatrics
Joan Levison	17	ex-officio	McKesson Corporation
Kadambari Parekh	1	Jun-11	Psychologist
Donald L. Seitas	3	ex-officio	Stauffer Chemical Co., retired
Bing Shen	1	Jun-10	CTCI Corporation
Victoria Stone	2	Jun-09	Sunrise Senior Living
Neal Tandowsky	3	ex-officio	Wells Fargo Bank
Sandra Yuen	8	Jun-09	Educational Research and Consultation
Amy W. Zellerbach	12	ex-officio	Attorney, Emily's List

Executive Management Team

The Executive Management Team consists of the President & Chief Executive Officer (CEO), the Executive Vice President (EVP), Chief Financial Officer (CFO) and Vice Presidents for Clinical Services and for Day Health Services.

Dr. David Werdegar, President and Chief Executive Officer. Prior to becoming the President & CEO of IOA, Dr. David Werdegar served as Director of the California Office of Statewide Health Planning and Development from 1991 to 2001. He previously served as Health Director of San Francisco for six years. Dr. Werdegar is a Professor Emeritus of Family and Community Medicine at the University of California, San Francisco where he served as Chairman of the Department of Family and Community Medicine, and as an Associate Dean of the Medical School.

Ken Donnelly, Executive Vice President. Prior to becoming the EVP of IOA in 1995 Ken Donnelly was the CFO of Mount Zion Health Systems in San Francisco. Prior to this he served as the Director of Finance at Conard House, Inc., and was the Project Manager on the renovation and conversion of three hotels to housing for previously homeless, mentally ill persons. He received his B.S. degree in accounting, from the University of Oregon in 1981. He has served as Interim CEO and CFO with IOA during his tenure.

John Sedlander, Chief Financial Officer. Prior to becoming the CFO for IOA, John Sedlander was the Resource Development Director for West Bay Housing, Director of Operations for the Committee on the Shelterless, and Director of Distribution of Sola Optical. He obtained his B.A. and Masters of Business Administration from the University of Michigan.

Tessa ten Tusscher, Ph.D., Vice President of Clinical Services. Dr.Tessa ten Tusscher oversees community-based services including the Case Management programs, the Geriatric Assessment Center, the Support Services for Elders program, the Center for Elderly Suicide Prevention, and the Older Adults Care Management program. Earlier, Dr. Tusscher was in private practice providing individual psychotherapy, psychological testing, and neuro-psychological assessment services for older adults. She has extensive teaching, publication, and research experience and has contributed to numerous conferences in the field of gerontology. She has earned a B.A. in Politics from the University of Sheffield, in the U.K., a Ph.D. in Political Science from the University of Leeds in the U.K., and a Ph.D. in Clinical Psychology from Center for Psychological Studies in Berkeley, California.

Cindy Kauffman, MS, CRC, Vice President of Day Health Services. Cindy Kauffman oversees all the Day Health programs of IOA. These include the Ruth Ann Rosenberg Adult Day Health Center, Irene Swindells Alzheimer's Social Day Program, Fillmore SeniorHealth Center, and Geary SeniorHealth Center. Ms. Kauffman has been employed at IOA since 1998. She holds an undergraduate Arts degree in Theatre from University of the Pacific and a Masters of Science in Rehabilitation Counseling from San Francisco State University. She currently serves as the President of the California Association of Adult Day Services.

INSURANCE COVERAGE

As of June 24, 2008, IOA carried the following insurance policies. Although IOA's management considers the current level of coverage to be adequate, no assurances can be given that the maintenance of such coverage will continue to be financially feasible for the IOA in the future. IOA does not carry earthquake insurance.

Type of Coverage	Carrier	Period	Limits	Retention/ Deductible
General & Professional Liability	Lexington	11/01/2007 - 1/01/2008	Aggregate $3,000,000 Occurrence $1,000,000	$25,000
Umbrella	Lexington	Same	$2,000,000	None
Directors & Officers	Federal Insurance	09/30/2007 - 9/30/2008	$5,000,000	$50,000
Workers Comp	Redwood Fire & Casualty	01/01/2008 - 1/01/2009	Each occurrence $1,000,000	None
Property & Auto	Hartford	05/01/2008 - 5/1/2009	Varies by location and type of property	$1,000

MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE

Sources of Revenue

IOA's operating revenue is derived primarily from three sources: 1) Patient Service Fees from its Adult Day Health, PACE programs and private-pay home care operations, 2) Grants and Contracts with the State of California, City and County of San Francisco and numerous corporate and family foundations, and 3) Charitable contributions from individuals and foundations.

Patient Service Revenue. IOA provides many different services to its clients. The description of each service has been provided under "EXISTING FACILITIES AND OPERATIONS" above. A summary of funding sources and the applicable percentage of net revenue from current 2008 data for each of those services are presented in the following table.

Funding Sources & Percentage of Net Patient Revenue

IOA Service	Funding Source	% of Net Patient Revenue
On Lok SeniorHealth (PACE)	On Lok Contract Agreement	53.41%
Older Adults Care Management	Private Pay	20.87%
Adult Day Health/ Alzheimer's Day	Medi-Cal/ Private Pay	8.31%
Mental Health & Aging	Medicare/ Private Pay	6.49%
Jewish Healing Center	Private Pay	4.98%
Irene Swindell's Center	Private Pay	1.88%
Support Services for Elders	Private Pay	1.64%
Ctr. For Elders and Youth in Arts	Private Pay	1.18%
Assessment Center	Medicare/ Private Pay	0.85%
Professional Education	Private Pay	0.37%

Grants and Contracts. IOA has historically received grant money each year from state, county and miscellaneous institutions. Amounts received in recent years are summarized as follows:

Grant/ Contract	Funding Source	2007	Projected 2008
California Department of Aging	State of California	$2,266,095	$2,305,180
Dept. of Aging & Adult Services	County of San Francisco	$1,351,538	$1,899,015
Miscellaneous	Institutions/Foundations	$ 975,728	$1,675,248

Contributions. IOA provides many services that are not reimbursed by government programs or residents as a result of contributions received from the community. Contributions may be unrestricted, temporarily restricted, or permanently restricted. In addition to the Capital Campaign relating to the Project, IOA holds three major annual fundraising events. A summary of the events, capital and operating contributions is summarized below:

Events	2007	2008
Dinner A La Heart	$158,265	$165,301
Cable Car Caroling	$ 46,440	$ 52,935
Jewish Healing Center Dinner	$ 55,765	$ 82,648
Annual Giving Campaign	$195,252	$193,731 [1]
Capital Campaign	$1,631,155	$1,510,324 [1]
In-Kind Donations (Labor)	$146,112	$510,560 [1]
Misc. Bequests and Other	$585,682	$549,493 [1]

[1] As of April 30, 2008.

Categories of Operating Expenses

IOA's expenses are categorized as program services expenses and supporting services expenses. Program expenses relating to the five major client service programs account for 87% of the total. The SeniorHealth Center programs, conducted in association with On Lok, Inc., constitute the most significant expense item and makes up

50% of the program expense total. Supporting Services (i.e. Administrative and Fundraising) represented 10% and 13% of the total expenses, respectively, for years 2008 and 2007.

Summary of Financial Information

The tables on the following pages present summaries of audited consolidated financial data relating to IOA for the Fiscal Years ended June 30, 2005 through 2007 and unaudited consolidated financial data for the ten months ended April 30, 2008 compared to the same period in the previous year.

IOA's audit reports (the "Financial Statements") are prepared by Good & Fowler LLP, South San Francisco, California (the "Auditor"). The audit reports state that the consolidated Financial Statements were examined in accordance with auditing standards generally accepted in the United States and contain opinions that the consolidated Financial Statements present fairly the financial position of the Home and Affiliates. For a summary of the significant accounting policies used in the preparation of the Financial Statements, see Note 1 in "APPENDIX B – Audited Financial Statements of the Borrower."

Management of IOA notes the following items with respect to the fiscal year 2007 audited financial statements and the 2008 financial data as of April 30, 2008:

Current Assets. Differences in cash from year-to-year relate to the collection and reduction of Grant and Contract Funds Receivable and Pledges Receivable and the off-setting increase in other asset categories. An award of $210,000 for the Adult Day Health, Center for Elders and Youth in the Arts, and Elder Abuse Prevention programs was recognized as revenue and removed from the Grants Receivable category. Pledges for the Capital Campaign in the amount of $700,000 were collected and reduced the Pledges Receivable balance. These funds and the collection of $1.5 million in new gifts were used to pay for pre-construction expenses for the Project resulting in the increase in Construction in Progress. Surplus Cash was used to pay down Accounts Payable to 30 days outstanding. IOA also received a third installment on the sale of the air rights to Bridge of $500,000. This money was used to pay off a pre-construction loan; thereby reducing Notes Payable.

Loss on Investments. The Investment Portfolio reflected an unrealized loss (decline in market value) as of April 30, 2008 of $600,000 from the previous April.

Increases in Revenues. Grants and Contracts Revenue increased by $1.2 million with the addition of a new contract with the City and County of San Francisco. This contract, called the Community Living Fund, pays IOA to coordinate the care management for individuals being discharged from the Laguna Honda (psychiatric) Hospital. Contributions increased primarily due to the recognition of $400,000 of in-kind hours worked by volunteers.

The primary increase in Patient Service Fee revenue was $800,000 in the IOA homecare program (known as Older Adults Care Management) operated on the San Francisco Bay Peninsula.

Increases in Expenses. The increase in Program Expenses from April 2007 to April 2008 reflects in the increases in service volume of the homecare program described in the previous paragraph. Older Adults Care Management's cost of providing direct care is approximately 70% of its revenue realized. Thus, with a growth of $800,000 in revenue the expenses increased $572,000. The increase in Community Care Programs is the contract with the City and County of San Francisco for the Community Living Fund. This is a cost reimbursed contract, and the increase in revenue of $1.2 million is offset with $1.17 million in expenses. (See "EXISTING FACILITIES AND OPERATIONS – Other Activities" above.) The increase in expenses of the Senior Health program is the result of a 3.5% salary and benefits increase. Finally, the increase in expenses for Other Programs resulted from the addition of new programs for Geriatric Assessment and Psychological services, including the establishment of a Forensic Center to aid in the prosecution of elder abuse cases in conjunction with the City of San Francisco District Attorney's office.

INSTITUTE ON AGING
Statements of Activities
Years Ended June 30, 2007, 2006 and 2005

	2007	2006	2005
REVENUES AND GAINS			
Grants and Contracts	$ 4,593,000	$ 2,229,000	$ 4,330,000
Contributions	2,819,000	4,275,000	2,597,000
Total Public Support	7,412,000	6,504,000	6,927,000
Patient Service Fees	19,885,000	18,789,000	15,549,000
Investment Income	205,000	178,000	129,000
Realized Gain (Loss) on Investments	(7,000)	(31,000)	32,000
Unrealized Gain (Loss) on Investments	306,000	146,000	83,000
Other Revenue	205,000	244,000	280,000
Total Other Revenue and Gains	20,594,000	19,326,000	16,073,000
Total Revenue and Gains	28,006,000	25,830,000	23,000,000
EXPENSES			
Program Services			
Senior Health	11,662,000	10,611,000	12,400,000
Older Adults Care Management	3,244,000	3,056,000	-
Multi-Purpose Senior Services	2,159,000	2,044,000	1,866,000
Adult Day Health Center	2,067,000	1,844,000	1,934,000
Community Care Programs	1,254,000	214,000	-
Other Programs	2,843,000	3,877,000	3,828,000
Total Program Services	23,229,000	21,646,000	20,028,000
Supporting Services			
Management and General	2,609,000	2,090,000	1,966,000
Fund Raising	697,000	572,000	559,000
Total Supporting Services	3,306,000	2,662,000	2,525,000
Total Expenses	26,535,000	24,308,000	22,553,000
CHANGE IN NET ASSETS	1,471,000	1,522,000	447,000
NET ASSETS, Beginning of Year	8,026,000	6,504,000	6,057,000
NET ASSETS, End of Year	$ 9,497,000	$ 8,026,000	$ 6,504,000

INSTITUTE ON AGING
Statements of Financial Position
June 30, 2007, 2006 and 2005

	2007	2006	2005
ASSETS			
CURRENT ASSETS			
Cash and Cash Equivalents	$ 369,000	$ 199,000	$ (333,000)
Grant and Contract Funds Receivable	1,110,000	792,000	672,000
Accounts Receivable - Net	1,510,000	903,000	725,000
Pledges Receivable	569,000	1,477,000	533,000
Prepaid Expenses	63,000	171,000	162,000
Total Current Assets	3,621,000	3,542,000	1,759,000
NONCURRENT ASSETS			
Investments	4,993,000	4,035,000	4,013,000
Contruction in Progress	13,493,000	12,104,000	11,542,000
Property and Equipment - Net	944,000	1,110,000	1,338,000
Pledges Receivable - Net	701,000	238,000	298,000
Deposits	32,000	14,000	5,000
Total Noncurrent Assets	20,163,000	17,501,000	17,196,000
Total Assets	$ 23,784,000	$ 21,043,000	$ 18,955,000
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts Payable and Accrued Expenses	$ 2,881,000	$ 2,344,000	$ 2,255,000
Notes Payable	663,000	591,000	471,000
Total Current Liabilities	3,544,000	2,935,000	2,726,000
NONCURRENT LIABILITIES			
Notes Payable	7,505,000	7,505,000	7,616,000
Advances	1,238,000	1,577,000	1,453,000
Advance for Air Rights	2,000,000	1,000,000	1,000,000
Total Noncurrent Liabilities	10,743,000	10,082,000	10,069,000
Total Liabilities	14,287,000	13,017,000	12,795,000
NET ASSETS			
Unrestricted	2,329,000	1,404,000	(2,334,000)
Temporarily Restricted	3,115,000	2,569,000	5,441,000
Permanently Restricted	4,053,000	4,053,000	3,053,000
Total Net Assets	9,497,000	8,026,000	6,160,000
Total Liabilities and Net Assets	$ 23,784,000	$ 21,043,000	$ 18,955,000

INSTITUTE ON AGING
Statements of Activities
Ten Months Ended April 30, 2008 and 2007

	2008	2007
REVENUE		
Grants and Contracts	$ 4,665,091	$ 3,427,010
Contributions	3,064,993	2,509,987
Patient Service Fees	17,679,838	16,404,003
Investment Income	156,493	137,683
Realized Gain (Loss) on Investments	136,552	39,630
Unrealized Gain (Loss) on Investments	(338,915)	271,209
Other Revenue	195,573	190,436
Total Revenue	25,559,625	22,979,958
EXPENSES		
Program Services		
Senior Health	9,918,538	9,599,914
Older Adults Care Management	3,243,963	2,672,014
Multi-Purpose Senior Services	1,820,392	1,657,759
Adult Day Health Center	1,660,891	1,596,480
Community Care Programs	2,065,076	893,744
Other Programs	2,758,067	2,316,537
Total Program Services	21,466,927	18,736,448
Supporting Services		
Management and General	2,023,030	2,156,336
Fund Raising	481,477	585,236
Total Supporting Services	2,504,507	2,741,572
Total Expenses	23,971,434	21,478,020
CHANGE IN NET ASSETS	1,588,191	1,501,938
NET ASSETS, July 1,	9,497,009	8,043,745
NET ASSETS, April 30,	$ 11,085,200	$ 9,545,683

INSTITUTE ON AGING
Statements of Financial Position
April 30, 2008 and 2007

	2008	2007
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 947,929	$ 403,336
Grant and Contract Funds Receivable	335,507	592,560
Accounts Receivable (Net)	1,839,005	1,805,886
Pledges Receivable	266,297	1,114,301
Prepaid Expenses	147,578	207,503
Total Current Assets	3,536,316	4,123,586
NONCURRENT ASSETS		
Investments	4,844,243	4,961,980
Construction in Progress	6,613,163	4,517,132
Property and Equipment (Net)	9,529,726	9,653,383
Pledges Receivable (Net)	602,100	500,000
Deposits	41,835	32,115
Total Noncurrent Assets	21,631,067	19,664,610
Total Assets	$ 25,167,383	$ 23,788,196
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable and Accrued Expenses	$ 2,232,622	$ 2,502,837
Notes Payable	663,000	591,000
Total Current Liabilities	2,895,622	3,093,837
NONCURRENT LIABILITIES		
Notes Payable	6,842,000	7,472,015
Advances	1,844,561	1,676,661
Advance for Air Rights	2,500,000	2,000,000
Total Noncurrent Liabilities	11,186,561	11,148,676
Total Liabilities	14,082,183	14,242,513
NET ASSETS		
Beginning Net Assets	9,497,009	8,043,745
Change in Net Assets	1,588,191	1,501,938
Total Net Assets	11,085,200	9,545,683
Total Liabilities and Net Assets	$ 25,167,383	$ 23,788,196

Assets and Liabilities

IOA has maintained investments of approximately $5 million for the past several years. The increase in Cash and Cash Equivalents from 2007 to 2008 is a result of collection of pledged receivables. Construction-In-Progress increased by $2 million during the period as IOA began demolition of the existing structures, site clearance and completion of the environmental requirements relating to the Project.

Additionally, IOA paid off $1 million in Notes Payable associated with a pre-construction loan and a $4 million property note. This was made possible by the sale of air rights with respect to the Project to Bridge. See "THE PROJECT" above. Another $3.5 million loan will be paid off with a portion of the proceeds of the Bonds. After issuance of the Bonds, IOA will have no other outstanding debt.

Capital Plans

Other than the Project, IOA does not have plans for any major capital expansion in the near future.

LITIGATION

IOA has not been involved in any material litigation in the past three years.

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE BORROWER

Audited financial statements of the Borrower for the Fiscal Years ended June 30, 2007 and 2006 are attached hereto.

[THIS PAGE INTENTIONALLY LEFT BLANK]

INSTITUTE ON AGING

Financial Statements

June 30, 2007

INSTITUTE ON AGING
Table of Contents

Good & Fowler, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Daniel J. Harrington, CPA
Bruce J. Wright, CPA
Michael J. Ellingson, CPA

Independent Auditors' Report

Board of Directors
Institute on Aging

We have audited the accompanying Statement of Financial Position of Institute on Aging (a non-profit organization) as of June 30, 2007 and the related Statements of Activities, Functional Expenses and Cash Flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements and, in our report dated October 18, 2006, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Institute on Aging as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 25, 2007, on our consideration of Institute on Aging's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Institute on Aging taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Good & Fowler LLP

October 25, 2007
(except for Note 7, as to which
the date is November 29, 2007)

P.O. Box 271 • 262 Grand Avenue • South San Francisco, CA 94083-0271
(650) 872-7600 • FAX (650) 872-7615 www.gfllp.com

Institute on Aging
Statement of Financial Position
June 30, 2007
(With Comparative Totals at June 30, 2006)

	Operations	Building Fund	Total 2007	Total 2006
	ASSETS			
CURRENT ASSETS				
Cash and Cash Equivalents	$ 344,000	$ 25,000	$ 369,000	$ 199,000
Grant and Contract Funds Receivable	1,110,000		1,110,000	792,000
Accounts Receivable (Net of allowance of $156,466)	1,510,000		1,510,000	903,000
Pledges Receivable		569,000	569,000	1,477,000
Prepaid Expenses	63,000		63,000	171,000
Total Current Assets	3,027,000	594,000	3,621,000	3,542,000
NONCURRENT ASSETS				
Investments	4,993,000		4,993,000	4,035,000
Construction Progress		13,493,000	13,493,000	12,104,000
Property and Equipment - Net	944,000		944,000	1,110,000
Pledges Receivable (Net of discount of $102,000)		701,000	701,000	238,000
Deposits	32,000		32,000	14,000
Total Noncurrent Assets	5,969,000	14,194,000	20,163,000	17,501,000
Total Assets	$ 8,996,000	$ 14,788,000	$ 23,784,000	$ 21,043,000
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts Payable and Accrued Expenses	$ 2,881,000	$	$ 2,881,000	$ 2,344,000
Notes Payable		663,000	663,000	591,000
Total Current Liabilities	2,881,000	663,000	3,544,000	2,935,000
NONCURRENT LIABILITIES				
Notes Payable	3,500,000	4,005,000	7,505,000	7,505,000
Advances	1,238,000		1,238,000	1,577,000
Advance for Air Rights		2,000,000	2,000,000	1,000,000
Interfund (Receivable) Payable	(2,281,000)	2,281,000	-	-
Total Noncurrent Liabilities	2,457,000	8,286,000	10,743,000	10,082,000
Total Liabilities	5,338,000	8,949,000	14,287,000	13,017,000
NET ASSETS				
Unrestricted	(968,000)	3,297,000	2,329,000	1,404,000
Temporarily Restricted	573,000	2,542,000	3,115,000	2,569,000
Permanently Restricted	4,053,000		4,053,000	4,053,000
Total Net Assets	3,658,000	5,839,000	9,497,000	8,026,000
Total Liabilities and Net Assets	$ 8,996,000	$ 14,788,000	$ 23,784,000	$ 21,043,000

See Notes to Financial Statements

Institute on Aging
Statement of Activities
Year Ended June 30, 2007
(With Comparative Totals at June 30, 2006)

	Operations			Building Fund			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Unrestricted**	**Temporarily Restricted**	**Total 2007**	**Total 2006**
REVENUES AND GAINS							
Grants and Contracts	$ 4,592,000	$ 1,000	$	$	$	$ 4,593,000	$ 2,229,000
Contributions	629,000	559,000	-		1,631,000	2,819,000	4,275,000
Total Public Support	5,221,000	560,000	-	-	1,631,000	7,412,000	6,504,000
Investment Income	205,000	-		-		205,000	178,000
(Loss) on Investments - Realized	(7,000)					(7,000)	(31,000)
Gain on Investments - Unrealized	306,000					306,000	146,000
Patient Service Fees	19,885,000					19,885,000	18,789,000
Other Revenue	205,000	-				205,000	244,000
Total Other Revenue and Gains	20,594,000	-	-	-	-	20,594,000	19,326,000
Total Revenues and Gains	25,815,000	560,000	-	-	1,631,000	28,006,000	25,830,000
NET ASSETS RELEASED FROM RESTRICTIONS							
Satisfaction of Program Restrictions	256,000	(256,000)	-	1,389,000	(1,389,000)	-	-
	256,000	(256,000)	-	1,389,000	(1,389,000)	-	-
EXPENSES							
Program Services							
Senior Health	11,662,000					11,662,000	10,611,000
Older Adults Care Management	3,244,000					3,244,000	3,056,000
Multi-Purpose Senior Services	2,159,000					2,159,000	2,044,000
Adult Day Health Center	2,067,000					2,067,000	1,844,000
Community Care Programs	1,254,000					1,254,000	214,000
Other Programs	2,843,000					2,843,000	3,877,000
Total Program Services	23,229,000	-	-	-	-	23,229,000	21,646,000
Management, General and Fund Raising							
Management and General	2,609,000					2,609,000	2,090,000
Fund Raising	277,000			420,000		697,000	572,000
Total Management, General and Fund Raising	2,886,000	-	-	420,000	-	3,306,000	2,662,000
Total Expenses	26,115,000	-	-	420,000	-	26,535,000	24,308,000
CHANGE IN NET ASSETS	(44,000)	304,000	-	969,000	242,000	1,471,000	1,522,000
NET ASSETS, Beginning of Year	(924,000)	269,000	4,053,000	2,328,000	2,300,000	8,026,000	6,504,000
NET ASSETS, End of Year	$ (968,000)	$ 573,000	$ 4,053,000	$ 3,297,000	$ 2,542,000	$ 9,497,000	$ 8,026,000

Institute on Aging
Statement of Functional Expenses
Year Ended June 30, 2007
(With Comparative Totals at June 30, 2006)

	Program Services							Supporting Services				
	Senior Health	Older Adults Care Management	Multi-Purpose Senior Services	Adult Day Health Center	Community Care Programs	Other Programs	Total Program Services	Management and General	Fund Raising	Total Supporting Services	2007 Total Expenses	2006 Total Expenses
Salaries	$ 4,276,000	$ 2,372,000	$ 1,178,000	$ 1,003,000	$ 732,000	$ 1,461,000	$ 11,022,000	$ 1,154,000	$ 374,000	$ 1,528,000	$ 12,550,000	$ 11,867,000
Payroll Taxes and Benefits	1,283,000	506,000	251,000	258,000	170,000	301,000	2,769,000	253,000	65,000	318,000	3,087,000	3,194,000
Professional Fees and Contract Labor	3,425,000	43,000	47,000	68,000	133,000	347,000	4,063,000	38,000	110,000	148,000	4,211,000	3,388,000
Occupancy	659,000	121,000	66,000	326,000	56,000	320,000	1,548,000	152,000	20,000	172,000	1,720,000	1,553,000
Other	231,000	171,000	57,000	160,000	88,000	272,000	979,000	400,000	126,000	526,000	1,505,000	1,310,000
Client Transportation	943,000	-	-	65,000	-	7,000	1,015,000	-	-	-	1,015,000	981,000
Supplies	581,000	10,000	12,000	185,000	6,000	101,000	895,000	14,000	2,000	16,000	911,000	751,000
Depreciation	249,000	14,000	17,000	2,000	5,000	15,000	302,000	18,000	-	18,000	320,000	312,000
Insurance	-	1,000	-	-	5,000	-	6,000	373,000	-	373,000	379,000	279,000
Interest	15,000	-	-	-	-	-	15,000	338,000	-	338,000	353,000	274,000
Waived and Special Services	-	-	317,000	-	23,000	13,000	353,000	-	-	-	353,000	227,000
Legal and Accounting	-	6,000	1,000	-	-	6,000	13,000	106,000	-	106,000	119,000	159,000
Indirect Program Expenses	-	-	213,000	-	36,000	-	249,000	(249,000)	-	(249,000)	-	-
Investment Management and Custodial Fees	-	-	-	-	-	-	-	12,000	-	12,000	12,000	13,000
Total	$ 11,662,000	$ 3,244,000	$ 2,159,000	$ 2,067,000	$ 1,254,000	$ 2,843,000	$ 23,229,000	$ 2,609,000	$ 697,000	$ 3,306,000	$ 26,535,000	$ 24,308,000

Institute on Aging
Statement of Cash Flows
Year Ended June 30, 2007
(With Comparative Totals at June 30, 2006)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 1,471,000	$ 1,522,000
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	320,000	312,000
Realized Loss on Investments	7,000	31,000
Unrealized (Gain) on Investments	(306,000)	(146,000)
Non-Cash Contributions	-	(29,000)
Interest and Dividends Reinvested	(41,000)	-
(Increase) Decrease in Operating Assets		
Grant and Contract Funds Receivable	(318,000)	224,000
Accounts Receivable	(607,000)	(178,000)
Pledges Receivable	444,000	(883,000)
Prepaid Expenses	109,000	(9,000)
Deposits	(18,000)	(9,000)
Increase (Decrease) in Operating Liabilities		
Accounts Payable and Accrued Expenses	536,000	89,000
Advances	(339,000)	124,000
Net Cash Provided by Operating Activities	1,258,000	1,048,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(3,112,000)	(1,496,000)
Proceeds from Sales of Investments	2,494,000	1,589,000
Payments for Construction in Progress	(1,389,000)	(562,000)
Purchase of Property and Equipment	(153,000)	(56,000)
Net Cash (Used) by Investing Activities	(2,160,000)	(525,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
New Borrowings	663,000	300,000
Principal Paid on Notes	(591,000)	(291,000)
Advance for Air Rights	1,000,000	-
Net Cash Provided by Financing Activities	1,072,000	9,000
NET INCREASE IN CASH AND CASH EQUIVALENTS	170,000	532,000
CASH AND CASH EQUIVALENTS (OVERDRAFT), Beginning of Year	199,000	(333,000)
CASH AND CASH EQUIVALENTS, End of Year	$ 369,000	$ 199,000
SUPPLEMENTAL INFORMATION		
Interest Cost Incurred	$ 743,000	$ 605,000
Capitalized Interest for Construction In Progress	(390,000)	(331,000)
Interest Charged to Operations	$ 353,000	$ 274,000

See Notes to Financial Statements

INSTITUTE ON AGING
Notes to Financial Statements
June 30, 2007

1. **Summary of Organization and Significant Accounting Policies**

Organization – Institute on Aging ("IOA"), is a California nonprofit public benefit corporation, which commenced operations on July 1, 1987. The IOA provides a broad range of services primarily benefiting older adults, including community-based senior services as well as research and educational programs targeting geriatric health issues.

Basis of Presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, IOA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents – For purposes of the Statement of Cash Flows, IOA considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Receivables – No allowance for grant and contract funds receivable is considered necessary as they primarily relate to government entities. An allowance for accounts receivable for client fees is provided based on management's evaluation of historical collections.

Pledges Receivable – Unconditional pledges receivable are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Pledges receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. No allowance for uncollectible pledges has been recorded based on management's evaluation of historical collections. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Investments – Investments are recorded at fair market value.

Property and Equipment – IOA capitalizes all expenditures for property and equipment in excess of $1,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over estimated service lives or the life of the lease, if shorter.

1. **Summary of Organization and Significant Accounting Policies (Continued)**

Restricted and Unrestricted Revenue – Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Services – The Income Statement includes $146,000 for the value of volunteers, primarily those who work to staff the Friendship Line and with specific qualifications. The amount shows in both Revenues and Expenses.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Income Taxes – IOA is exempt from income taxes under Internal Revenue Section 501(c)(3) and California Revenue and Taxation code Section 23701d. IOA qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising – Institute on Aging uses advertising to promote its programs. The production costs of advertising are expensed as incurred. During the fiscal year ended June 30, 2007, advertising expense was $122,000.

Reclassifications – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

1. Summary of Organization and Significant Accounting Policies (Continued)

Comparative Financial Information – The financial statements include certain prior-year summarized comparative information in total and not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly such information should be read in conjunction with IOA's financial statements for the year ended June 30, 2006, from which the summarized information was derived.

2. Concentrations

IOA maintains cash balances at several financial institutions located in San Francisco. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000 or by SIPC up to $500,000. At June 30, 2007, the uninsured cash balances total $280,000. IOA does not believe that it is exposed to any significant risk in connection with these cash balances.

Approximately 49% of IOA's revenue is derived from a contract from On Lok Senior Health Services. This contract is in force until 2012. On Lok receives its funding for this program from the federal government. In the event funding is terminated, IOA's programs would be significantly altered.

3. Pledges Receivable

	2007	2006
Permanently Restricted	$ -	$ 1,000,000
Capital Campaign	1,372,000	727,000
Total Pledges Receivable	$ 1,372,000	$ 1,727,000
Receivable in less than one year	$ 569,000	$ 1,477,000
Receivable in one to five years	803,000	250,000
Total Unconditional Pledges Receivable	1,372,000	1,727,000
Less: Discounts to present value	(102,000)	(12,000)
Net Pledges Receivable	$ 1,270,000	$ 1,715,000

Pledges to be received after June 30, 2008 are discounted at 5 percent. There are three conditional pledges totaling $1,532,000 related to the construction referred to in Notes 5. The pledges are conditional on the start of construction.

4. Investments

	2007	2006
Government and Corporate Bonds	$ 1,738,000	$ 1,711,000
Mutual Funds	1,757,000	1,753,000
Pooled Investment Fund	428,000	493,000
Money Market Funds	1,070,000	78,000
Total	$ 4,993,000	$ 4,035,000

See Note 7 regarding borrowings secured by the investments.

5. Construction in Progress

	2007	2006
Land	$ 8,752,000	$ 8,752,000
Construction in Progress	4,741,000	3,352,000
Total	$ 13,493,000	$ 12,104,000

During the year ended June 30, 2001, IOA purchased the building and land at 3575 Geary Boulevard in San Francisco for $8,752,000. IOA plans to construct a new building and move many of its locations currently providing direct services and support to the new building. Development costs of $4,741,000 including interest of $1,895,000 have been capitalized for this project at June 30, 2007.

IOA has entered into a purchase and sale agreement with Bridge Housing, Inc. IOA will sell an Air Rights parcel above the second floor on any proposed new construction at 3575 Geary Boulevard in San Francisco to Bridge Housing, Inc. for $6,591,000. IOA has received an advance from Bridge Housing, Inc. of $2,000,000 towards this purchase. Construction to begin in late 2007 with total project costs of $30,000,000 for IOA and $45,000,000 for Bridge's portion of the building.

INSTITUTE ON AGING
Notes to Financial Statements
June 30, 2007
(Continued)

6. **Property and Equipment**

	2007	2006
Leasehold Improvements	$ 3,478,000	$ 3,427,000
Equipment	1,168,000	2,215,000
Subtotal	4,646,000	5,642,000
Less Accumulated Depreciation	(3,702,000)	(4,532,000)
Total	$ 944,000	$ 1,110,000

7. **Notes Payable**

Mortgage payable to City National Bank, secured by a deed of trust, interest at the prime rate +0.375% payable monthly, matures July 2008	$ 4,005,000
Working Capital Line-of-Credit of $3,000,000 with City National Bank, secured by investments, interest at the prime rate payable monthly, due June 2008, extended to July 2008	3,000,000
Working Capital Line-of-Credit of $500,000 with City National Bank, secured by investments, interest at the prime rate payable monthly, due June 2008, extended to July 2008	500,000
Construction Line-of-Credit of $1,000,000 with Northern California Community Loan Fund, to be used for pre-development expenses for the new building, principal and interest at 7.0% due at maturity, which is defined as the earlier of: date when bond financing is in place, date IOA receives final proceeds of sale of air rights, or April 25, 2008	663,000
	8,168,000
Less: Current Maturities	(4,163,000)
Long Term Debt	$ 4,005,000

7. **Notes Payable (continued)**

Maturities of long-term debt are as follows:

Fiscal year ending June 30,	
2008	$ 4,163,000
2009	4,005,000
Total	$ 8,168,000

Terms of the agreements for the working capital lines of credit require the Organization to maintain liquid assets in the collateral accounts of not less than $3,500,000 and net assets not less than $5,500,000, tested at the end of each quarter. At June 30, 2007, the Organization is in compliance with these requirements.

8. **Commitments – Operating Leases** – IOA leases various program and administrative facilities and office equipment expiring in various years through 2010. For the year ended June 30, 2007, total rent expense was $1,312,000. Minimum future lease payments are as follows:

Fiscal Year Ending June 30,	
2008	$ 1,289,000
2009	1,036,000
2010	485,000
Total	$ 2,810,000

10. **Pension Plan** – IOA has a Tax Sheltered Annuity under IRC 403(b), which allows all employees with at least one hour of service to contribute through payroll deductions. IOA makes no matching contributions under this plan.

11. **Retirement Plan** – IOA is a participating employer in the Retirement Plan for Hospital Employees (RPHE). This plan is a multiemployer, defined benefit plan and therefore is covered by paragraphs 67 to 70 of FAS 87. Under FAS 87 the net pension cost for an employer in a multiemployer pension plan is equal to the required contributions to that plan. For calendar year 2006 there was no contribution required from IOA.

Institute on Aging
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Pass-Through Number	Federal Expenditures
Department of Health and Human Services				
Office of the Secretary, Administration on Aging - Medical Assistance Program (Medicaid, Title XIX)	93.778	State of California - Department of Aging, Multipurpose Senior Services Program	MS-0405-06	$ 1,133,000
Administration on Aging - Special Programs For The Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	City and County of San Francisco, Office on the Aging	EN-AG-02-0000-11	15,000
United States Department of Agriculture				
Child and Adult Food Care Program (CACFP)	10.558	State of California - Department of Education	38-5187-IN	47,000
				$ 1,195,000

The Schedule of Expenditures of Federal Awards include the federal grant activity of Institute on Aging and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Good & Fowler, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Daniel J. Harrington, CPA
Bruce J. Wright, CPA
Michael J. Ellingson, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Institute on Aging

We have audited the financial statements of Institute on Aging as of and for the year ended June 30, 2007, and have issued our report thereon dated October 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Institute on Aging's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and

P.O. Box 271 • 262 Grand Avenue • South San Francisco, CA 94083-0271
(650) 872-7600 • FAX (650) 872-7615 www.gfllp.com

questioned costs as Finding 2007-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that Finding 2007-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Institute on Aging's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Institute on Aging's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Institute on Aging's response and, accordingly, we express no opinion on it.

This report is intended for the information of the audit committee, management, board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Good & Fowler, LLP

October 25, 2007

Good & Fowler, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Daniel J. Harrington, CPA
Bruce J. Wright, CPA
Michael J. Ellingson, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Institute on Aging

Compliance

We have audited the compliance of Institute on Aging (a nonprofit organization) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. Institute on Aging's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Institute on Aging's management. Our responsibility is to express an opinion on Institute on Aging's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Institute on Aging's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Institute on Aging's compliance with those requirements.

In our opinion, Institute on Aging complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

P.O. Box 271 • 262 Grand Avenue • South San Francisco, CA 94083-0271
(650) 872-7600 • FAX (650) 872-7615 www.gfllp.com

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 (Continued)

Internal Control Over Compliance

The management of Institute on Aging is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Institute on Aging's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the audit committee, board of directors, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Good & Fowler, LLP

October 25, 2007

Institute on Aging
Schedule of Findings and Questioned Costs
Year Ended June 30, 2007

Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Institute on Aging.

2. One significant deficiency in internal controls was disclosed by the audit of the financial statements. This condition is reported as material weakness. This reportable condition is reported in Part 2 of this schedule.

3. No instances of noncompliance material to the financial statements of Institute on Aging were disclosed during the audit.

4. No reportable conditions relating to the audit of major federal award programs are reported in the auditors' reports.

5. The auditor's report on compliance for the major federal award programs for Institute on Aging expresses an unqualified opinion on all major federal programs.

6. The audit disclosed one finding which is required to be reported under Section__.510 of OMB Circular A-133. This finding is reported in Part 2 of this schedule.

7. The program tested as a major federal program is:

   a. Department of Health and Human Services, Office of the Secretary, Administration on Aging - Medical Assistance Program (Medicaid, Title XIX), CFDA #93.778

8. The threshold for distinguishing between Type A and Type B programs was $300,000.

9. Institute on Aging was determined to not qualify as a low risk auditee.

Findings – Financial Statement Audit (GAGAS)

Finding 2007-1:

Condition: Certain general ledger accounts were not reconciled to supporting documentation during the fiscal year. Some of the reconciliations detailed the general ledger balances so one could see the activity, but reconciliation to supporting documentation did not occur until year end.

Criteria: Production of materially accurate and meaningful financial statements.

Effect: Management could be basing their decisions on incomplete and potentially inaccurate information.

Recommendation: IOA should reconcile all of the general ledger accounts to supporting documentation on a quarterly basis. Bank accounts, accounts payable and payroll should continue to be reconciled monthly. For internal accounting purposes, a level of materiality should not be used in determining if an account should be reconciled. For internal accounting purposes, there is no materiality. Materiality is an audit concept only. Such timely reconciliations would increase the possibility of detecting theft or unrecorded transactions and provide management with better information upon which to make decisions.

Management Response: Management concurs with the above recommendation. We will reconcile bank accounts, accounts payable and payroll accounts monthly and all other balance sheet accounts quarterly.

Audit Findings and Questioned Costs (Major Programs – Circular A-133, Section .510)

None.

Status of Prior Year Findings

Finding 05-01: This finding reported a condition wherein "Certain general ledger accounts are not reconciled to supporting documentation during the fiscal year." Timely reconciliations were recommended. Due to turnover of accounting personnel, this was not done and resulted in a subsequent finding, Finding 06-01.

Finding 06-01: This finding was the same as Finding 05-01. Substantial improvement in reconciliations occurred during the fiscal year ended June 30, 2007. We still believe a finding is in order as the level of improvement is not as complete as we believe necessary.

INSTITUTE ON AGING

Financial Statements

June 30, 2006

INSTITUTE ON AGING

Table of Contents

Good & Fowler, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Daniel J. Harrington, CPA
Bruce J. Wright, CPA
Michael J. Ellingson, CPA

Independent Auditors' Report

Board of Directors
Institute on Aging

We have audited the accompanying Statement of Financial Position of Institute on Aging (a non-profit organization) as of June 30, 2006 and the related Statements of Activities, Functional Expenses and Cash Flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Organization's 2005 financial statements and, in our report dated December 15, 2005, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Institute on Aging as of June 30, 2006, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, an error resulting in understatement of previously reported grants as of June 30, 2005, was discovered by management of the Organization during the current year. Accordingly, the 2005 financial statements have been restated to correct the error.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 18, 2006, on our consideration of Institute on Aging's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Institute on Aging taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

October 18, 2006

Good & Fowler, LLP

P.O. Box 271 • 262 Grand Avenue • South San Francisco, CA 94083-0271
(650) 872-7600 • FAX (650) 872-7615 www.gfllp.com

Institute on Aging
Statement of Financial Position
June 30, 2006
(With Comparative Totals at June 30, 2005)

	Operations	Building Fund	Total 2006	Total 2005
ASSETS				
CURRENT ASSETS				
Cash and Cash Equivalents	$ 199,000	$	$ 199,000	$ -
Grant and Contract Funds Receivable	792,000		792,000	672,000
Accounts Receivable (Net of allowance of $227,000)	903,000		903,000	725,000
Pledges Receivable	1,000,000	477,000	1,477,000	533,000
Prepaid Expenses	171,000		171,000	162,000
Total Current Assets	3,065,000	477,000	3,542,000	2,092,000
NONCURRENT ASSETS				
Investments	4,035,000		4,035,000	4,013,000
Construction Progress		12,104,000	12,104,000	11,542,000
Property and Equipment - Net	1,110,000		1,110,000	1,338,000
Pledges Receivable (Net of discount of $12,000)		238,000	238,000	298,000
Deposits	14,000		14,000	5,000
Total Noncurrent Assets	5,159,000	12,342,000	17,501,000	17,196,000
Total Assets	$ 8,224,000	$ 12,819,000	$ 21,043,000	$ 19,288,000
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Cash Overdraft	$ -	$ -	$ -	$ 333,000
Accounts Payable and Accrued Expenses	2,344,000		2,344,000	2,255,000
Notes Payable	591,000		591,000	471,000
Total Current Liabilities	2,935,000	-	2,935,000	3,059,000
NONCURRENT LIABILITIES				
Notes Payable	3,500,000	4,005,000	7,505,000	7,616,000
Advances	1,577,000		1,577,000	1,453,000
Advance for Air Rights		1,000,000	1,000,000	1,000,000
Interfund (Receivable) Payable	(3,186,000)	3,186,000	-	-
Total Noncurrent Liabilities	1,891,000	8,191,000	10,082,000	10,069,000
Total Liabilities	4,826,000	8,191,000	13,017,000	13,128,000
NET ASSETS				
Unrestricted	(924,000)	2,328,000	1,404,000	(2,334,000)
Temporarily Restricted	269,000	2,300,000	2,569,000	5,441,000
Permanently Restricted	4,053,000		4,053,000	3,053,000
Total Net Assets	3,398,000	4,628,000	8,026,000	6,160,000
Total Liabilities and Net Assets	$ 8,224,000	$ 12,819,000	$ 21,043,000	$ 19,288,000

See Notes to Financial Statements

Institute on Aging
Statement of Activities
Year Ended June 30, 2006
(With Comparative Totals at June 30, 2005)

	Operations			Building Fund			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Total 2006	Total 2005
REVENUES AND GAINS							
Grants and Contracts	$ 31,000	$ 2,198,000	$	$	$	$ 2,229,000	$ 4,330,000
Contributions	874,000	2,005,000	1,000,000		396,000	4,275,000	2,597,000
Total Public Support	905,000	4,203,000	1,000,000	-	396,000	6,504,000	6,927,000
Investment Income	126,000	4,000		48,000		178,000	129,000
Gain on Investments - Realized	(31,000)					(31,000)	32,000
Gain on Investments - Unrealized	146,000					146,000	83,000
Patient Service Fees	18,789,000					18,789,000	15,549,000
Other Revenue	188,000	56,000				244,000	280,000
Total Other Revenue and Gains	19,218,000	60,000	-	48,000	-	19,326,000	16,073,000
Total Revenues and Gains	20,123,000	4,263,000	1,000,000	48,000	396,000	25,830,000	23,000,000
NET ASSETS RELEASED FROM RESTRICTIONS							
Satisfaction of Program Restrictions	6,969,000	(6,969,000)	-	562,000	(562,000)	-	-
	6,969,000	(6,969,000)	-	562,000	(562,000)	-	-
EXPENSES							
Program Services							
Multi-Purpose Senior Services	2,044,000					2,044,000	1,866,000
Research Center	214,000					214,000	581,000
Adult Day Health Center	1,844,000					1,844,000	1,934,000
Senior Health	10,611,000					10,611,000	12,400,000
Older Adults Care Management	3,056,000					3,056,000	-
Other Programs	3,877,000					3,877,000	3,247,000
Total Program Services	21,646,000	-	-	-	-	21,646,000	20,028,000
Management, General and Fund Raising							
Management and General	1,783,000					1,783,000	1,735,000
Fund Raising	256,000			316,000		572,000	559,000
Interest Expense	239,000					239,000	184,000
Investment Management and Custodial Fees	68,000					68,000	47,000
Total Management, General and Fund Raising	2,346,000	-	-	316,000	-	2,662,000	2,525,000
Total Expenses	23,992,000	-	-	316,000	-	24,308,000	22,553,000
CHANGE IN NET ASSETS	3,100,000	(2,706,000)	1,000,000	294,000	(166,000)	1,522,000	447,000
NET ASSETS, Beginning of the Year, as originally stated	(4,024,000)	2,975,000	3,053,000	2,034,000	2,466,000	6,504,000	5,713,000
Prior Period Adjustment						-	344,000
NET ASSETS, Beginning of Year, as restated	(4,024,000)	2,975,000	3,053,000	2,034,000	2,466,000	6,504,000	6,057,000
NET ASSETS, End of Year	$ (924,000)	$ 269,000	$ 4,053,000	$ 2,328,000	$ 2,300,000	$ 8,026,000	$ 6,504,000

Institute on Aging
Statement of Functional Expenses
Year Ended June 30, 2006
(With Comparative Totals at June 30, 2005)

	Program Services						
	Multi-Purpose Senior Services	Research Center	Adult Day Health Center	Senior Health	Older Adults Care Management	Other Programs	Total Program Services
Salaries	$ 1,177,000	$ 120,000	$ 929,000	$ 3,951,000	$ 2,133,000	$ 2,224,000	$ 10,534,000
Payroll Taxes and Benefits	267,000	28,000	278,000	1,348,000	556,000	475,000	2,952,000
Professional Fees and Contract Labor	31,000	20,000	76,000	2,839,000	42,000	300,000	3,308,000
Occupancy	67,000	43,000	321,000	604,000	118,000	305,000	1,458,000
Other	42,000	(4,000)	46,000	207,000	162,000	424,000	877,000
Client Transportation	-	-	34,000	944,000	-	3,000	981,000
Supplies	10,000	1,000	158,000	456,000	13,000	92,000	730,000
Depreciation	26,000	1,000	2,000	228,000	16,000	14,000	287,000
Insurance	-	-	-	-	1,000	-	1,000
Interest	-	-	-	34,000	-	-	34,000
Waived and Special Services	213,000	-	-	-	-	14,000	227,000
Legal and Accounting	-	-	-	-	15,000	(1,000)	14,000
Indirect Program Expenses	211,000	5,000	-	-	-	27,000	243,000
Investment Management and Custodial Fees	-	-	-	-	-	-	-
Total	$ 2,044,000	$ 214,000	$ 1,844,000	$ 10,611,000	$ 3,056,000	$ 3,877,000	$ 21,646,000

	Supporting Services					
	Management and General	Fund Raising	Investment Fees	Total Supporting Services	2006 Total Expenses	2005 Total Expenses
Salaries	$ 1,005,000	$ 328,000	$ -	$ 1,333,000	11,867,000	$ 9,292,000
Payroll Taxes and Benefits	191,000	51,000	-	242,000	3,194,000	2,862,000
Professional Fees and Contract Labor	24,000	56,000	-	80,000	3,388,000	5,261,000
Occupancy	73,000	22,000	-	95,000	1,553,000	1,429,000
Other	266,000	112,000	-	378,000	1,255,000	968,000
Client Transportation	-	-	-	-	981,000	910,000
Supplies	19,000	2,000	-	21,000	751,000	720,000
Depreciation	24,000	1,000	-	25,000	312,000	306,000
Insurance	278,000	-	-	278,000	279,000	228,000
Interest	240,000	-	-	240,000	274,000	184,000
Waived and Special Services	-	-	-	-	227,000	247,000
Legal and Accounting	145,000	-	-	145,000	159,000	99,000
Indirect Program Expenses	(243,000)	-	-	(243,000)	-	-
Investment Management and Custodial Fees	-	-	68,000	68,000	68,000	47,000
Total	$ 2,022,000	$ 572,000	$ 68,000	$ 2,662,000	$ 24,308,000	$ 22,553,000

See Notes to Financial Statements

Institute on Aging
Statement of Cash Flows
Year Ended June 30, 2006
(With Comparative Totals at June 30, 2005)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	$ 1,522,000	$ 447,000
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	312,000	306,000
Realized (Gain) Loss on Investments	31,000	(32,000)
Unrealized (Gain) on Investments	(146,000)	(83,000)
Non-Cash Contributions	(29,000)	18,000
(Increase) Decrease in Operating Assets		
Grant and Contract Funds Receivable	224,000	(225,000)
Accounts Receivable	(178,000)	(34,000)
Pledges Receivable	(883,000)	809,000
Prepaid Expenses	(9,000)	(24,000)
Deposits	(9,000)	-
Increase (Decrease) in Operating Liabilities		
Accounts Payable and Accrued Expenses	89,000	546,000
Advances	124,000	(110,000)
Net Cash Provided by Operating Activities	1,048,000	1,618,000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Investments	(1,496,000)	(1,358,000)
Proceeds from Sales of Investments	1,589,000	1,479,000
Payments for Construction in Progress	(562,000)	(531,000)
Purchase of Property and Equipment	(56,000)	(370,000)
Net Cash (Used) by Investing Activities	(525,000)	(780,000)
CASH FLOWS FROM FINANCING ACTIVITIES		
New Borrowings	300,000	-
Principal Paid on Notes	(291,000)	(1,180,000)
Net Cash Provided (Used) by Financing Activities	9,000	(1,180,000)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	532,000	(342,000)
CASH AND CASH EQUIVALENTS (OVERDRAFT), Beginning of Year	(333,000)	9,000
CASH AND CASH EQUIVALENTS (OVERDRAFT), End of Year	$ 199,000	$ (333,000)
SUPPLEMENTAL INFORMATION		
Interest Cost Incurred	$ 605,000	$ 440,000
Capitalized Interest for Construction In Progress	(331,000)	(256,000)
Interest Charged to Operations	$ 274,000	$ 184,000

See Notes to Financial Statements

1. Summary of Organization and Significant Accounting Policies

Organization – Institute on Aging ("IOA"), is a California nonprofit public benefit corporation, which commenced operations on July 1, 1987. The IOA provides a broad range of services primarily benefiting older adults, including community-based senior services as well as research and educational programs targeting geriatric health issues.

Basis of Presentation – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, IOA is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents – For purposes of the Statement of Cash Flows, IOA considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Receivables – No allowance for grant and contract funds receivable is considered necessary as they primarily relate to government entities. An allowance for accounts receivable for client fees is provided based on management's evaluation of historical collections.

Pledges Receivable – Unconditional pledges receivable are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Pledges receivable are recorded at net realizable value if expected to be collected in one year and at fair value if expected to be collected in more than one year. No allowance for uncollectible pledges has been recorded based on management's evaluation of historical collections. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Investments – Investments are recorded at fair market value.

Property and Equipment – IOA capitalizes all expenditures for property and equipment in excess of $1,000. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over estimated service lives or the life of the lease, if shorter.

1. **Summary of Organization and Significant Accounting Policies (Continued)**

Restricted and Unrestricted Revenue – Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Services – No amounts have been reflected in the financial statements for donated services. IOA pays for most services requiring specific expertise.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles includes the use of estimates that affect the financial statements. Accordingly, actual results could differ from those estimates.

Income Taxes – IOA is exempt from income taxes under Internal Revenue Section 501(c)(3) and California Revenue and Taxation code Section 23701d. IOA qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Expense Allocation – The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising – Institute on Aging uses advertising to promote its programs. The production costs of advertising are expensed as incurred. During the fiscal year ended June 30, 2006, advertising expense was $155,000.

Reclassifications – Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

INSTITUTE ON AGING
Notes to Financial Statements
June 30, 2006
(Continued)

1. **Summary of Organization and Significant Accounting Policies (Continued)**

Comparative Financial Information – The financial statements include certain prior-year summarized comparative information in total and not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly such information should be read in conjunction with IOA's financial statements for the year ended June 30, 2005, from which the summarized information was derived.

2. **Concentration of Credit Risk** – The IOA maintains cash balances at several financial institutions located in San Francisco. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $100,000 or by SIPC up to $500,000. At June 30, 2006, the uninsured cash balances total $48,000. IOA does not believe that it is exposed to any significant risk in connection with these cash balances.

3. **Pledges Receivable**

	2006	2005
Permanently Restricted	$ 1,000,000	$ -
Capital Campaign	727,000	843,000
Total Pledges Receivable	$ 1,727,000	$ 843,000
Receivable in less than one year	$ 1,477,000	$ 533,000
Receivable in one to five years	250,000	310,000
Total Unconditional Pledges Receivable	1,727,000	843,000
Less: Discounts to present value	(12,000)	(12,000)
Net Pledges Receivable	$ 1,715,000	$ 831,000

Pledges to be received after June 30, 2007 are discounted at 5 percent.

There are four conditional promises to give totaling $3,578,000 related to the construction referred to in Notes 4 and 10. The promises to give are conditional on the project breaking ground and on IOA meeting certain fund raising goals.

4. **Investments**

	2006	2005
Government and Corporate Bonds	$ 1,711,000	$ 1,874,000
Mutual Funds	1,753,000	1,635,000
Pooled Investment Fund	493,000	473,000
Money Market Funds	78,000	31,000
Total	$ 4,035,000	$ 4,013,000

See Note 6 regarding borrowings secured by the investments.

5. **Construction in Progress**

	2006	2005
Land	$ 8,752,000	$ 8,752,000
Construction in Progress	3,352,000	2,790,000
Total	$ 12,104,000	$ 11,542,000

During the year ended June 30, 2001, IOA purchased the building and land at 3575 Geary Boulevard in San Francisco for $8,752,000. IOA plans to construct a new building and move many of its locations currently providing direct services and support to the new building. Development costs of $3,352,000 including interest of $1,505,000 have been capitalized for this project at June 30, 2006.

IOA has entered into a purchase and sale agreement with Bridge Housing, Inc. IOA will sell an Air Rights parcel above the second floor on any proposed new construction at 3575 Geary Boulevard in San Francisco to Bridge Housing, Inc. for $6,591,000. IOA has received an advance from Bridge Housing, Inc. of $1,000,000 towards this purchase. Construction to begin in 2007 with total project costs of $28,500,000.

INSTITUTE ON AGING
Notes to Financial Statements
June 30, 2006
(Continued)

6. **Property and Equipment**

	2006	2005
Leasehold Improvements	$ 3,427,000	$ 3,357,000
Equipment	2,215,000	1,941,000
Subtotal	5,642,000	5,298,000
Less Accumulated Depreciation	(4,532,000)	(3,960,000)
Total	$ 1,110,000	$ 1,338,000

7. **Notes Payable**

Mortgage payable to City National Bank, secured by a deed of trust, interest at the prime rate +0.25% payable monthly, matures November 2007	$ 4,005,000
Working Capital Line-of-Credit of $3,000,000 with City National Bank, secured by investments, interest at the prime rate + .5% payable monthly, matures November 2007	3,000,000
Working Capital Line-of-Credit of $500,000 with City National Bank, secured by investments, interest at the prime rate + .5% payable monthly, matures November 2007	500,000
Note payable, unsecured, interest at 15%, payable with principal on maturity November 2006	300,000
Note payable to On Lok Senior Health Services, unsecured, monthly payments of $24,000 principal plus interest at the prime rate plus 1%, matures July 2007	291,000
	8,096,000
Less: Current Maturities	(591,000)
Long Term Debt	$ 7,505,000

Maturities of long-term debt are as follows:

Fiscal year ending June 30,	
2007	$ 591,000
2008	7,505,000
Total	$ 8,096,000

8. **Commitments – Operating Leases** – IOA leases various program and administrative facilities and office equipment expiring in various years through 2009. For the year ended June 30, 2006, total rent expense was $1,171,000. Minimum future lease payments are as follows:

Fiscal Year Ending June 30,	
2007	$ 1,246,000
2008	946,000
2009	128,000
Total	$ 2,320,000

9. **Pension Plan** – IOA has a Tax Sheltered Annuity under IRC 403(b), which allows all employees with at least one hour of service to contribute through payroll deductions. IOA makes no matching contributions under this plan.

10. **Retirement Plan** – IOA is a participating employer in the Retirement Plan for Hospital Employees (RPHE). This plan is a multiemployer, defined benefit plan and therefore is covered by paragraphs 67 to 70 of FAS 87. Under FAS 87 the net pension cost for an employer in a multiemployer pension plan is equal to the required contributions to that plan. For calendar year 2006 there was no contribution required from IOA.

11. **Prior Period Adjustment** – The accompanying financial statements for 2005 have been restated to correct an error resulting in grant revenue understatement in 2005. A three year grant was being recognized as revenue in the year the payment is received. Subsequently, it was determined that the total amount of the grant should have been recognized as grant revenue and a receivable in the year ended June 30, 2005. The effect of the restatement was to increase temporarily restricted net assets by $344,000 and grants receivable by $344,000.

Institute on Aging
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor	Pass-Through Number	Federal Expenditures
Department of Health and Human Services				
Office of the Secretary, Administration on Aging - Medical Assistance Program (Medicaid, Title XIX)	93.778	State of California - Department of Aging, Multipurpose Senior Services Program	MS-0405-06	$ 986,000
Public Health Service, National Institutes of Health - Aging Research	93.866	National Institutes of Health, National Institute on Aging	5R01 AG15982-04, 1R21 AG0419-01	117,000
Administration on Aging - Special Programs For The Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	City and County of San Francisco, Office on the Aging	EN-AG-02-0000-11	15,000
United States Department of Agriculture				
Child and Adult Food Care Program (CACFP)	10.558	State of California - Department of Education	38-5187-IN	39,000
				$ 1,157,000

The Schedule of Expenditures of Federal Awards include the federal grant activity of Institute on Aging and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Government and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Good & Fowler, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Daniel J. Harrington, CPA
Bruce J. Wright, CPA
Michael J. Ellingson, CPA

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
Institute on Aging

We have audited the financial statements of Institute on Aging as of and for the year ended June 30, 2006, and have issued our report thereon dated October 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Institute on Aging's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

P.O. Box 271 • 262 Grand Avenue • South San Francisco, CA 94083-0271
(650) 872-7600 • FAX (650) 872-7615 www.gfllp.com

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Institute on Aging's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the audit committee, management, board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Good & Fowler, LLP

October 18, 2006

Good & Fowler, LLP
CERTIFIED PUBLIC ACCOUNTANTS

Daniel J. Harrington, CPA
Bruce J. Wright, CPA
Michael J. Ellingson, CPA

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Institute on Aging

Compliance

We have audited the compliance of Institute on Aging (a nonprofit organization) with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. Institute on Aging's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Institute on Aging's management. Our responsibility is to express an opinion on Institute on Aging's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Institute on Aging's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Institute on Aging's compliance with those requirements.

In our opinion, Institute on Aging complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

P.O. Box 271 • 262 Grand Avenue • South San Francisco, CA 94083-0271
(650) 872-7600 • FAX (650) 872-7615 www.gfllp.com

Internal Control Over Compliance

The management of Institute on Aging is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Institute on Aging's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, board of directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Good & Fowler, LLP

October 18, 2006

Institute on Aging
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Summary of Auditor's Results

1. The auditor's report expresses an unqualified opinion on the financial statements of Institute on Aging.

2. One reportable condition in internal controls was disclosed by the audit of the financial statements. This condition is reported as material weakness. This reportable condition is reported in Part 2 of this schedule.

3. No instances of noncompliance material to the financial statements of Institute on Aging were disclosed during the audit.

4. No reportable conditions relating to the audit of major federal award programs are reported in the auditors' reports.

5. The auditor's report on compliance for the major federal award programs for Institute on Aging expresses an unqualified opinion on all major federal programs.

6. The audit disclosed one finding which is required to be reported under Section__.510 of OMB Circular A-133. This finding is reported in Part 2 of this schedule.

7. The program tested as a major federal program is:

   a. Department of Health and Human Services, Office of the Secretary, Administration on Aging - Medical Assistance Program (Medicaid, Title XIX), CFDA #93.778

8. The threshold for distinguishing between Type A and Type B programs was $300,000.

9. Institute on Aging was determined to qualify as a high risk auditee.

Institute on Aging
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Findings – Financial Statement Audit (GAGAS)

Finding 06-01 (Same as Finding 05-01):

Condition: Certain general ledger accounts are not reconciled to supporting documentation during the fiscal year.

Criteria: Production of materially accurate and meaningful financial statements.

Effect: Management is basing their decisions on incomplete and potentially inaccurate information.

Recommendation: The Organization should reconcile the general ledger accounts for accounts receivable, revenue, accounts payable and accruals to supporting documentation on a monthly basis. Such a reconciliation process would increase the possibility of detecting theft or unrecorded transactions and providing management with better information upon which to make decisions.

Management Response: Management believes that significant progress has been made on most material general ledger accounts, but because of employee turnover in accounting, proper reconciliation was not accomplished on some accounts until after year end. The accounts are now being reconciled on a current basis.

Audit Findings and Questioned Costs (Major Programs – Circular A-133, Section .510)

None.

Status of Prior Year Findings

Finding 05-01: See Finding 06-01.

APPENDIX C

SUMMARY OF PRINCIPAL LEGAL DOCUMENTS

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

DEFINITIONS OF CERTAIN TERMS

"Accountant" means any Independent certified public accountant or firm of such accountants with a national or regional reputation selected by the Corporation and acceptable to the Office, and so long as such Accountant is acceptable to the Office. The initial Accountant, Good & Fowler, LLP, of South San Francisco, California, is acceptable to the Office.

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

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

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

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

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

"ALTA" means American Land Title Association.

"Authority" means the ABAG Finance Authority for Nonprofit Corporations, a joint powers authority duly organized and validly existing under the laws of the State of California.

"Authorized Representative" means, (a) with respect to the Corporation, any two of the following persons, countersigning: its Chairman, its Chief Executive Officer or any other person designated as an Authorized Representative of the Corporation by a Certificate of the Corporation signed by its Chairman or Chief Executive Officer and filed with the Trustee, (b) with respect to the Office, the Director of the Office or the Deputy Director of the Cal Mortgage Loan Insurance Division or any other person designated as an Authorized Representative of the Office by a Statement of the Office signed by its Director or the Deputy Director of the Cal Mortgage Loan Insurance Division and filed with the Trustee, and (c) with respect to the Authority, its President, Chief Financial Officer, Secretary or any other person as may be designated and authorized to sign for the Authority.

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

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

"Bond Reserve Account Requirement" means the Series 2008A Reserve Requirement or the Series 2008B Reserve Requirement, as applicable.

"*Bond Reserve Subaccounts*" means collectively the Series 2008A Reserve Subaccount and the Series 2008B Reserve Subaccount, which shall secure only the related Series of Bonds issued under the Indenture.

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

"Bonds" means the 2008A Bonds and the (Taxable) 2008B Bonds.

"Bond Year" means the period of twelve consecutive months ending July 31 (unless the Corporation selects an alternate date) in any year in which Bonds are Outstanding.

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

"Capital Replacement Amount" means the amount required to be deposited in each Fiscal Year to the Capital Replacement Fund, which amount shall be (a) $120,000 for the Fiscal Year commencing July 1, 2009, and (b) thereafter shall be increased for the next Fiscal Year to the extent there was a percentage increase from the preceding July 1 in the Consumer Price Index, All Urban Consumers, All Items San Francisco-Oakland-San Jose, CA, published by the United States Department of Labor, Bureau of Labor Statistics, such percentage increase, if any, shall be applied to the Capital Replacement Amount of the preceding Fiscal Year and the Capital Replacement Amount shall then be determined by adding the resulting amount to the Capital Replacement Amount of such previous Fiscal Year, provided, that in no event shall the Capital Replacement Amount increase by more than ten percent (10%) in one year. Such amount shall be calculated by the Corporation in each year and certified to the Office.

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

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

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

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

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

"Code" means the Internal Revenue Code of 1986 and the regulations issued thereunder or any successor thereto. Reference to any particular Code section shall, in the event of such successor Code, be deemed to be reference to the successor to such Code section.

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

"Contract of Insurance" means that contract of insurance entered into by and among the Corporation, the Office and the Authority dated as of the same date as the Regulatory Agreement, as amended, modified and supplemented from time to time.

"Corporation" means the Institute on Aging, a California nonprofit public benefit corporation, organized for the purpose of owning and operating a health facility for the elderly and that also meets the requirements of section 501(c)(3) of the Code, as required by Insurance Law section 129010(o), and any corporation which may become obligated under the Loan Agreement and the Regulatory Agreement, or any corporation which is the surviving, resulting or transferee corporation in any merger, consolidation or transfer of assets permitted under the Regulatory Agreement.

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

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

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

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

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

(1) if Long-Term Indebtedness is

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

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

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

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

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

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

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

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

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

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

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

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

"Deed of Trust" means that certain Deed of Trust with Fixture Filing and Security Agreement dated as of the same date as the Regulatory Agreement, to be executed by the Corporation, as trustor, in favor of the Deed Trustee for the benefit of the Office and the Trustee, as beneficiaries, as amended, modified and supplemented from time to time.

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

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

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

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

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

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

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

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

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

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

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

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

"Event of Default" means any of the events specified in Section 7.01 of the Indenture.

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

"Fiscal Year" means the period from August 1 through July 31, or any other twelve-month period hereafter selected and designated as the official fiscal year period of the Corporation.

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

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

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

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

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

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

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

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

the Hazardous Substance Account Act ("HSAA"), Cal. Health & Safely Code §§ 25300 et seq.; the Underground Storage of Hazardous Substances Act, Cal. Health & Safety §§ 25280 et seq.; the Porter-Cologne Water Quality Control Act (the "Porter-Cologne Act"), Cal. Water Code §§ 13000 et seq., the Safe Drinking Water and Toxic Enforcement Act of 1986 (Proposition 65); and Title 22 of the California Code of Regulations, Division 4, Chapter 30; (d) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority or agency or may or could pose a hazard to the health and safety of the occupants of the Facilities or the owners and/or occupants of property adjacent to or surrounding the Facilities, or any other person coming upon the Facilities or adjacent property; or (e) any other chemical, materials or substance which may or could pose a hazard to the environment.

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

"Indenture" means that certain Indenture, dated as of August 1, 2008, by and between the Authority and the Trustee, as amended, modified and supplemented from time to time, relating to the Bonds.

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

"*Information Services*" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; FIS/Mergent, Inc., 5250 77 Center Drive, Suite 150, Charlotte, North Carolina 28217, Attn: Call Notification; Standard & Poor's Securities Evaluation, Inc., 55 Water Street, 45th Floor, New York, New York 10041, Attention: Notification Department; Xcitek, 5 Hanover Square, New York, New York 10004; and, in accordance with then current guidelines of the Securities and Exchange Commission, such other addresses and/or such other information services providing information with respect to the redemption of bonds as the Authority may designate in a Certificate of the Authority filed with the Trustee.

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

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

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

"Interest Payment Date" means an interest payment date specified in this Official Statement.

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

a. direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America) or obligations the timely payment of the principal of and interest on which are fully guaranteed by the United States of America, including instruments evidencing an ownership interest in securities described in this clause (a) such as CATS, TIGRs, Treasury Receipts and Stripped Treasury Coupons;

b. debentures, bonds, notes or other evidence of indebtedness issued or guaranteed by any of the following U.S. government agencies which obligations are not fully guaranteed by the full faith and credit of the United States of America (including stripped securities if the agency has stripped them itself): Federal Home Loan Bank System (senior debt obligations); Resolution Funding Corporation (REFCORP) obligations; Federal Home Loan Mortgage Corporation (FHLMC or “Freddie Mac”) senior debt obligations or participation certificates; Federal National Mortgage Association (FNMA or “Fannie Mae”) mortgage-backed securities and senior debt obligations; senior debt obligations of other government sponsored agencies approved by the Office;

c. bonds of any state of the United States or of any county, city and county or city of any state of the United States which are, at the time of purchase, rated in one of the two highest Rating Categories of each rating agency then rating the Bonds;

d. commercial paper of finance companies and banking institutions rated in one of the two highest Rating Categories of each rating agency then rating the Bonds;

e. repurchase agreements fully secured by collateral security described in clauses (a) or (b) of this definition, which collateral (i) is held by the Trustee or a third party agent during the term of such repurchase agreement, (ii) is not, pursuant to the terms of such agreement, subject to liens or claims of third parties and (iii) has a market value (determined at least once every fourteen days) at least equal to the amount so invested;

f. long-term investment agreements (with maturity dates in excess of one year) with financial institutions (including, without limitation, banks and insurance companies) the debt obligations of which are rated in one of the two highest Rating Categories of each rating agency then rating the Bonds or short-term investment agreements with financial institutions the long- or short-term debt obligations of which are rated in one of the two highest long- or short-term, as the case may be, Rating Categories of each rating agency then rating the Bonds, provided that if such rating falls below the two highest Rating Categories, the investment agreement shall allow the Trustee, at the direction of the Corporation, to replace such financial institution or shall provide for the invested securities to be fully collateralized by investments described in (a) above and, provided further, that if so collateralized, that, as evidenced by an opinion of counsel, the Trustee has a perfected first security lien on the collateral and such collateral is held by the Trustee;

g. banker’s acceptances or certificates of deposit of, or time deposits in, any bank (including the Trustee or any of its affiliates) or savings and loan association (i) the debt obligations of which (or in the case of the principal bank of a bank holding company, the debt obligations of the bank holding company of which) are rated in one of the two highest Rating Categories of each rating agency then rating the Bonds or (ii) which certificates of deposit or time deposits are fully insured by the Federal Deposit Insurance Corporation or (iii) which certificates of deposit or time deposits are secured at all times, in the manner and to the extent provided by law, by collateral security (described in clauses (a) or (b) of this definition) with a market value (valued at least quarterly) of no less than the original amount of moneys so invested;

h. money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and having an S&P rating of “AAAm”, including any funds for which the Trustee or any of its affiliates provides investment advisory or management services;

i. obligations the interest on which is excluded from gross income for federal income tax purposes and money market mutual funds whose portfolios are restricted to such obligations, which obligations or mutual funds are rated in one of the two highest Rating Categories by each rating agency then rating the Bonds;

j. bonds, notes, debentures or other evidences of indebtedness issued or guaranteed by a corporation which are, at the time of purchase, rated by Standard & Poor's and Moody's in any of its two highest rating categories without regard to any refinement or gradation of rating category by numerical modifier or otherwise; and

k. any other investment approved by the Office in writing.

"Loan Agreement" means that certain Loan Agreement, dated as of August 1, 2008, between the Authority and the Corporation, as originally executed and as amended from time to time in accordance with its terms.

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

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

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

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

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

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

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

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

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

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

"Net Income Available for Debt Service" means, with respect to any period, the excess of revenues (including cash entrance fess received, net of refunds but excluding amortized entrance fees) over expenses from operations of the Corporation for such period, determined in accordance with generally accepted accounting

principles, to which shall be added unrestricted non-operating net income, interest, amortization, depreciation expense and other non-cash charges, each item determined in accordance with generally accepted accounting principles, and excluding: (a) any profits or losses on the sale or other disposition, not in the ordinary course of business, of investments or fixed or capital assets or resulting from the early extinguishment of debt, (b) gifts, grants, bequests, donations and contributions, to the extent specifically restricted by the donor to a particular purpose inconsistent with their use for the payment of Debt Service or operating expenses, and (c) the net proceeds of insurance (other than business interruption insurance) and condemnation awards.

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

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

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

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

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

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

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

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

"*Permitted Encumbrances*" means and includes:

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

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

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

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

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

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

g. present or future valid zoning laws and ordinances;

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

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

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

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

l. the lease or license of the use of a part of the Facilities for use by patients, residents and others in connection with the proper operation of the Facilities in accordance with customary business practices in the health and residential care industries;

m. liens or encumbrances existing as of the date of initial execution and delivery of the Bonds as listed on Exhibit D attached to the Regulatory Agreement;

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

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

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

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

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

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

"*Program*" means the Authority's program of making loans under the Act.

"Project" means the Project set forth on the cover of the Regulatory Agreement.

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

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

"Rebate Fund" means the Rebate Fund established in the Indenture and relating to the Series 2008A Bonds.

"Record Date" means, with respect to any Interest Payment Date for the Bonds, the first (1st) day of the calendar month preceding such Interest Payment Date whether or not such day is a Business Day.

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

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

"Regulatory Agreement" means that certain Regulatory Agreement, dated as of August 1, 2008, among the Authority, the Office and the Corporation, as originally executed and as amended from time to time in accordance with its terms.

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

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

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

including (1) any Additional Payments, or (2) any amounts paid to the Authority or the Trustee pursuant to rights of indemnification.

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

"S&P" means Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, or, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Authority.

"Securities Depositories" means The Depository Trust Company, 55 Water Street, 50th Floor, New York, New York 10041-0099 Attn: Call Notification Department, Fax (212) 855-7232 or, in accordance with the then current guidelines of the Securities and Exchange Commission, to such other addresses and/or such other securities depositories, or to no such depositories, as the Authority may designate in a Certificate of the Authority delivered to the Trustee.

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

"*Series*" or *"Series of Bonds"* means the Series 2008A Bonds or the Series 2008B Bonds, as applicable.

"Series 2008A Bonds" means the ABAG Finance Authority for Nonprofit Corporations Insured Health Facility Revenue Bonds (Institute on Aging) Series 2008A.

"Series 2008A Reserve Subaccount" means the account by that name established within the Reserve Account pursuant to the Indenture.

"Series 2008A Reserve Requirement" means, as of any date of calculation, an amount equal to an amount equal to (i) the least of (a) 10% of the initial principal amount of the Series 2008A Bonds, (b) 125% of average annual bond service on all Series 2008A Bonds Outstanding as of such date, or (c) Maximum Annual Bond Service on all Series 2008A Bonds Outstanding as of such date, (ii) less the amount on deposit in the Series 2008B Reserve Subaccount. On the closing date, the Series 2008A Reserve Requirement is as set forth in this Official Statement.

"Series 2008B Bonds" means the ABAG Finance Authority for Nonprofit Corporations Insured Health Facility Revenue Bonds (Institute on Aging) (Taxable) Series 2008B.

"Series 2008B Reserve Subaccount" means the account by that name established within the Reserve Account pursuant to the Indenture.

"Series 2008B Reserve Requirement" means, as of any date of calculation, an amount equal to the least of (a) 10% of the initial principal amount of the Series 2008B Bonds, (b) 125% of average annual bond service on all Series 2008B Bonds Outstanding as of such date, or (c) Maximum Annual Bond Service on all Series 2008B Bonds Outstanding as of such date. On the closing date, the Series 2008B Reserve Requirement is as set forth in this Official Statement.

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

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

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

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

"State" means the State of California.

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

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

"Tax Agreement" means the Tax Agreement with respect to the Series 2008A Bonds executed and delivered by the Authority and the Corporation, as originally executed and as the same may be amended and supplemented from time to time in accordance with the terms thereof.

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

"Trustee" means Wells Fargo Bank, National Association, as trustee, together with the Trustee's permitted successors as trustee, under the Indenture.

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

LOAN AGREEMENT

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

Loan Repayments

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

Additional Payments

In addition to Loan Repayments, the Corporation shall also pay to the Authority or to the Trustee, as the case may be, "Additional Payments", as follows: (1) all taxes and assessments charged to the Authority or the Trustee affecting the amount available to the Authority or Trustee from payments to be received under the Loan Agreement or in any way arising due to the transactions contemplated thereby; (2) all reasonable fees, charges and expenses of the Trustee for services rendered under the Indenture (3) the fees and expenses of such accountants, consultants, attorneys and other experts engaged by the Authority or the Trustee to provide services required under the Loan Agreement, the Bonds, the Tax Agreement or the Indenture; (4) fees and expenses of the Authority in connection with the loan to the Corporation under the Loan Agreement, the Bonds, the Indenture, or any other documents contemplated hereby or thereby; and (5) all other fees and expenses of the Authority attributable to the Loan Agreement, the Bonds or the Indenture. Such Additional Payments shall be billed to the Corporation by the Authority or the Trustee from time to time. The Corporation shall pay Additional Payments within 30 days after receipt of the bill.

Gross Revenue Fund

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

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

Unconditional Obligations of the Corporation; Net Contract

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

Prepayment

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

Maintenance of Corporate Existence of the Corporation

The Corporation shall maintain its existence as a nonprofit public benefit corporation of the State, and the Corporation shall operate a health facility (as that term is defined in the Insurance Code).

Tax Covenants

The Corporation covenants and agrees that it will at all times do and perform all acts and things permitted by law and the Loan Agreement which are necessary in order to ensure that interest paid on the Series 2008A Bonds will be excluded from gross income for federal income tax purposes and will take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Corporation agrees to comply with the provisions of the Tax Agreement. This covenant survives payment in full or defeasance of the Series 2008A Bonds.

Continuing Disclosure

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

Licensing

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

Accounting Records, Financial Statements and Budget

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

Maintenance of the Facilities

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

Nonliability of Authority

The Authority shall not be obligated to pay the principal of, Redemption Price and interest on the Bonds, except from Revenues and other moneys and assets received by the Trustee on behalf of the Authority pursuant to the Loan Agreement. Neither the faith and credit nor the taxing power of the State of California or any political subdivision thereof (including the members of the Authority) nor the faith and credit of the Authority is pledged to the payment of the principal of, Redemption Price or interest on the Bonds. The Authority shall not be liable for any costs, expenses, losses, damages, claims or actions, of any conceivable kind on any conceivable theory, under or by reason of or in connection with the Loan Agreement, the Bonds or the Indenture, except only to the extent amounts are received for the payment thereof from the Corporation under the Loan Agreement.

Indemnification

The Corporation agrees, to the extent permitted by law, to indemnify and hold harmless the Authority, the Association of Bay Area Governments and the Trustee and their officers, officials, members, employees and agents from and against any and all losses, claims, damages, liabilities or expenses, including legal fees and expenses, of every conceivable kind, character and nature whatsoever, including, but not limited to, losses, claims, damages, liabilities, or expenses arising out of, resulting from or in any way connected with (i) the Facilities, or the conditions, occupancy, use, possession, conduct or management of, or work done in or about, or from the planning, design, acquisition, installation or construction of such facilities or any part thereof; (ii) the issuance of any Bonds and carrying out of any of the transactions contemplated by the Loan Agreement; (iii) the Trustee's acceptance or administration of the trust under the Indenture, or the exercise or performance of any of its powers or duties thereunder, or (iv) any violation of any Environmental Law, rule or regulation or the release of any Hazardous Material affecting the Facilities; (v) any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering circular utilized in connection with the sale of the Bonds; provided, however, that such indemnification of the Trustee shall not include liabilities caused by the Trustee's breach of contract, negligence or willful misconduct. The Corporation further agrees, to the extent permitted by law, to pay or to reimburse the Authority, the Association of Bay Area Governments and the Trustee and their officers, officials, members, employees and agents for any and all costs, attorney's fees, liabilities or expenses incurred in connection with investigating, defending against or otherwise in connection with any such losses, claims, damages, liabilities, expenses or actions. The obligations of the Corporation shall not be affected by any assignment or other transfer by the Authority of its rights, title or interest under the Loan Agreement to the Trustee pursuant to the Indenture. These obligations of the Corporation shall survive the resignation or removal of the Trustee under the Indenture and payment of the Bonds and discharge of the Indenture and the resignation and removal of the Trustee.

Loan Default Events

The following, among other things, will be "Loan Default Events" under the Loan Agreement: (1) failure to pay in full any payment required under the Loan Agreement when due; (2) if any representation or warranty made by the Corporation in the Loan Agreement or in certain other documents in connection with the issuance of the Bonds shall at any time prove to have been incorrect in any material respect as of the time made; (3) failure by the Corporation to observe or perform any other covenant, condition, agreement or provision in the Loan Agreement for a period of 30 days after written notice to the Corporation by the Authority, the Office or the Trustee, except that if such failure can be remedied but not within such 30 days, and if the Corporation has taken all action reasonably possible to remedy such failure or breach within such 30 days, then such failure shall not become a Loan Default

Event for so long as the Corporation diligently attempt such remedy subject to directions and limitations of time established by the Trustee or the Office; (4) if the Corporation abandons the Facilities, or any substantial part thereof and such abandonment continues for a period of 30 days after written notice thereof has been given to the Corporation by the Authority or the Trustee; (5) if any default shall exist under any agreement respecting Long-Term Indebtedness (other than Parity Debt) and if, as a result thereof, Long-Term Indebtedness in an aggregate principal amount in excess of 10% of the Corporation's Adjusted Annual Operating Revenues are declared immediately due and payable or a proceeding for enforcement is brought, except if the Corporation establishes reserves or obtains a surety bond acceptable to the Office for the payment of such Long-Term Indebtedness which, in the opinion of the Office, are adequate; (6) if any default exists under any instrument pursuant to which Parity Debt was issued and is Outstanding and such default continues after the grace period; (7) certain incidents of bankruptcy, insolvency or similar conditions; and (8) any Event of Default under the Indenture.

Any Loan Default Event shall constitute an event of default under the Regulatory Agreement.

Remedies on Default

During the continuance of a Loan Default Event, the Authority or the Trustee, to the extent the Trustee has actual knowledge of such Loan Default Event, may, with the consent of the Office (provided that such consent shall not be required in the case of a Loan Default Event arising from the breach of a tax covenant or if the Contract of Insurance is not in effect or the Office is in default thereunder) among other things, declare all installments of Loan Repayments and Additional Payments payable for the remainder of the term of the Loan Agreement to be immediately due and payable. The Authority or the Trustee may take whatever legal action may be necessary or desirable to enforce the terms of the Loan Agreement.

INDENTURE

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

Application of Proceeds of the Bonds

The proceeds received from the sale of the Bonds will be deposited in trust with the Trustee, which will set aside or apply such proceeds as follows: (i) the Trustee shall set aside in the Costs of Issuance Fund amounts required for the payment of Costs of Issuance; (ii) the Trustee shall set aside in the Capitalized Interest Account in the Project Fund the sum set forth in this Official Statement; (iii) the Trustee shall set aside in the Series 2008A Reserve Subaccount the sum set forth in this Official Statement from the proceeds of the Series 2008A Bonds and in the Series 2008B Reserve Subaccount the sum set forth in this Official Statement from the proceeds of the Series 2008B Bonds; (iv) the Trustee shall set aside in the Escrow Fund the sum set forth in this Official Statement from the proceeds of the Series 2008B Bonds to be used immediately thereafter for transfer to City National Bank, to pay the principal of and prepayment premium, if any, due to satisfy the outstanding City National Bank line of credit; and (v) the Trustee shall set aside the remaining amount in the Project Fund.

Establishment of Funds and Accounts

The Indenture creates the Revenue Fund and the accounts established thereunder, the Redemption Fund and the accounts established thereunder, the Insurance and Condemnation Proceeds Fund, the Project Fund (and within the Project Fund, the a separate account designated as the "Capitalized Interest Account"), the Costs of Issuance Fund, the Escrow Fund and the Rebate Fund; all of which are to be held by the Trustee.

Escrow Fund

The Trustee shall establish and maintain a separate fund designated as the "Series 2008B Escrow Fund" (the "Escrow Fund"). Moneys on deposit in the Escrow Fund shall be used by the Trustee subsequent to delivery of the Bonds for transfer to City National Bank. Immediately after such transfer, the Trustee shall close the Escrow Fund.

Costs of Issuance Fund

The costs associated with the issuance of the Bonds will be paid from moneys within the Costs of Issuance Fund. Moneys in the Costs of Issuance Fund may be withdrawn pursuant to requisition from the Corporation to the Trustee and an executed form OSH-CM-134 of the Office. Each such requisition shall be sufficient evidence to the Trustee of the facts stated therein, and the Trustee shall have no duty to confirm the accuracy of such facts. On the 180th day following the issuance of the Bonds or upon the earlier Request of the Corporation, amounts, if any, remaining in the Costs of Issuance Fund shall be transferred to the Revenue Fund and the Costs of Issuance Fund shall be closed.

Insurance and Condemnation Proceeds Fund

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

Revenue Fund

All Revenues will be deposited by the Trustee upon receipt in the Revenue Fund which the Trustee will hold in trust and apply in accordance with the Indenture, except as otherwise provided with respect to investment income, moneys required to be deposited in the Redemption Fund, proceeds of insurance and condemnation received pursuant to the Loan Agreement and the Regulatory Agreement, amounts required by the Loan Agreement to be deposited in the Bond Reserve Account and amounts held in the Rebate Fund.

Pledge and Assignment of Revenues

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

Allocation of Revenues

For so long as there are sufficient moneys in the Capitalized Interest Account of the Revenue Fund to pay all interest becoming due and payable on the next Interest Payment Date, the Trustee shall transfer from the Capitalized Interest Account in the Project Fund two Business Days before each Interest Payment Date an amount equal to the interest becoming due and payable on such Interest Payment Date. On or before the 10th day of each month, the Trustee shall transfer from the Revenue Fund and deposit into the following respective accounts (each of which the Trustee shall establish and maintain within the Revenue Fund), the following amounts in the following order of priority, the requirements of each such account or fund (including the making up of any deficiencies in any such account resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of deposit to be satisfied before any transfer is made to any account or fund subsequent in priority:

FIRST: To the Interest Account, one-sixth of the aggregate amount of interest becoming due and payable during the next six months on all Bonds Outstanding, until the balance is equal to said aggregate amount of interest; provided, however, that if any moneys then remain in the Capitalized Interest Account of the Project Fund, the Trustee shall reduce such one-sixth monthly installments to the extent necessary so that the amount of such reduced installments, when added to the remaining balance of the Capitalized Interest Account, which the Trustee shall transfer to Interest Account two Business Days prior the next Interest Payment Date, shall be sufficient to pay the interest becoming due and payable on said Interest Payment Date;

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

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

FOURTH: To the Rebate Fund, such mounts as directed by the Corporation as are required to be deposited therein by the Indenture (including the Tax Agreement).

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

Application of Interest Account and Principal Account

All amounts in the Interest Account shall be used by the Trustee solely for the payment of interest on the Bonds. All amounts in the Principal Account shall be used by the Trustee solely for paying the principal of the Bonds.

Application of Redemption Fund

The Trustee shall establish within the Redemption Fund a separate Optional Redemption Account and a separate Special Redemption Account. Except for as provided in the following paragraph, all amounts deposited in the Optional Redemption Account and Special Redemption Account shall be used by the Trustee solely for the purpose of redeeming Bonds pursuant to the terms of the Indenture at the next succeeding date of redemption for which notice has been given and at redemption prices then applicable to redemptions from the Optional Redemption Account and Special Redemption Account, respectively; provided that, at any time prior to giving such notice of redemption, the Trustee shall, upon direction of the Corporation, apply such amounts to the purchase of Bonds at public or private sale, at prices as provided in the Indenture, and provided further that, in the case of the Optional Redemption Account, in lieu of redemption at such next succeeding date of redemption, or in combination therewith, amounts in such account may be transferred to the Revenue Fund and credited against Loan Repayments in order of their due date as requested by the Corporation.

Application of Bond Reserve Account

The Trustee shall, maintain and hold in trust a separate fund to be known as the "Bond Reserve Account", together with a “Series 2008A Reserve Subaccount” and a “Series 2008B Reserve Subaccount” therein. Amounts on deposit in the Series 2008A Reserve Subaccount will be used only to make payments with respect to the Series 2008A Bonds. While the Series 2008B Bonds are outstanding, amounts on deposit in the Series 2008B Reserve Subaccount will be used only to make payments with respect to the Series 2008B Bonds. Upon payment in full of the Series 2008B Bonds, any amounts remaining in the Series 2008B Reserve Subaccount will be held by the Trustee and used as needed to make any payments with respect to the Series 2008A Bonds.

While the Series 2008B Bonds are Outstanding, all amounts in the Bond Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of paying principal of or interest on the applicable Series of Bonds, including the principal amount of any such Bonds subject to mandatory sinking fund redemption pursuant to the Indenture, when due and payable to the extent that moneys deposited in the Revenue Fund are not sufficient for such purpose.

Unless otherwise provided in a Supplemental Indenture or in connection with the delivery of a Reserve Fund Credit Facility, amounts on deposit in the Series 2008A Reserve Subaccount shall be used only to make payments with respect to the Series 2008A Bonds, and amounts on deposit in the Series 2008B Reserve Subaccount shall be used only to make payments with respect to the Series 2008B Bonds. All amounts in the Bond Reserve Account shall be used and withdrawn by the Trustee solely for the purpose of making up any deficiency in the Interest Account or Principal Account (but, in each case, only with the consent of the Office) or (together with any other moneys available therefor) for the payment or redemption of all Bonds then Outstanding.

Except as provided above concerning the use of the Series 2008B Reserve Subaccount, the Bond Reserve Subaccounts shall only secure the related Series of Bonds.

Rebate Fund

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

Investments

All moneys in any of the funds and accounts established pursuant to the Indenture shall be invested by the Trustee, upon the written direction of the Corporation, solely in Investment Securities. Moneys in the funds and accounts (other than the Bond Reserve Account and the Rebate Fund) established pursuant to the Indenture shall be invested in Investment Securities maturing not later than the date on which it is estimated that such moneys will be required by the Trustee. Moneys in the Bond Reserve Account shall be invested in Investment Securities maturing prior to the final maturity of the Bonds but in no event longer than five years from the date of investment therein; provided, however, moneys in the Bond Reserve Account may be invested in Investment Securities with a nominal maturity date which is greater than five years as long as said Investment Securities by their terms allow the Trustee to obtain (at any time the Trustee is required to draw on the Bond Reserve Account) the corpus thereto at no less than the purchase price thereof without any loss in value. All interest, profits and other income received from the investment of moneys in the Rebate Fund shall be deposited when received in such fund. All interest, profits and other income received from the investment of moneys in any fund or account established pursuant to the Indenture (other than the Rebate Fund) (i) prior to completion of the Project (determined by the delivery of a Statement of the Corporation in accordance with the Indenture), shall be deposited when received in the Project Fund, and thereafter (ii) shall be transferred when received to the Revenue Fund. All investments of amounts deposited in any fund or account created by or pursuant to the Indenture will be valued at the market value thereof.

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

Tax Covenants Relating to the Series 2008A Bonds

The Authority shall at all times do and perform all acts and things permitted by law and the Indenture which are necessary or desirable in order to assure that interest paid on the Series 2008A Bonds (or any of them) will be excluded from gross income for federal income tax purposes and shall take no action that would result in such interest not being so excluded. Without limiting the generality of the foregoing, the Authority agrees to comply with the provisions of the Tax Agreement. This covenant shall survive payment in full or defeasance of the Series 2008A Bonds.

Continuing Disclosure

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

Events of Default; Remedies on Default

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

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

In addition, the Trustee in its discretion may, and upon written request of the Office or the Owners of not less than 25% in aggregate principal amount of the Bonds then Outstanding and the written consent of the Office, and upon being indemnified to its satisfaction therefor shall, with the written consent of the Office, proceed to protect or enforce its rights or the rights of such Owners under the Indenture, the Loan Agreement, the Regulatory Agreement, the Contract of Insurance, the Deed of Trust, the Act or any other law. No Owner of any Bond has the right to institute any proceeding unless (1) such Owner shall have given written notice to the Trustee of the occurrence of an Event of Default, (2) the Owners of not less than 25% in aggregate principal amount of all the Bonds then Outstanding shall have made written request upon the Trustee to institute such proceedings in its own name, (3) such Owner or Owners shall have tendered to the Trustee reasonable indemnity against the expenses to be incurred in compliance with such request, (4) the Trustee shall have refused or omitted to comply with such request for a period of 60 days after receipt of such written notice and tender of indemnity; and (5) except as otherwise permitted under the Indenture, the Office has consented in writing.

Limitations on Foreclosure

Notwithstanding anything in the Indenture, the Deed of Trust, the Loan Agreement or any document to the contrary, the Trustee shall not be required to initiate foreclosure proceedings with respect to the Project, and shall not otherwise be required to acquire possession of, or take other action with respect to the Project which could cause it to be considered an "owner" or "operator" within the meaning of the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended from time to time, or any other law dealing with environmental matters or hazardous substances, unless the Trustee has sufficient comfort, based on previous determinations by experts on which the Trustee may rely, including an environmental report (any expense of a new report shall be paid from by the Corporation if moneys are available or shall be paid by the Owner or Owners), that: (i) the Project is in compliance with all environmental laws, rules or regulations or, if the Project is not in compliance, that it would nevertheless be in the best economic interest of the Trustee and the Owner or Owners to take such actions as are necessary for the Project to comply therewith; and (ii) there are no circumstances present at the Project relating to the use, management or disposal of any hazardous substances, hazardous materials, hazardous wastes, or petroleum-based materials for which investigation, testing, monitoring, contaminant clean up or remedial action could be required under any environmental laws or that, if any such materials are present for which such action could be required, that it would nevertheless be in the best economic interest of the Trustee and the Owner or Owners to take such actions with respect to the Project; and (iii) if the Trustee has determined that it would be in the best economic interest of the Trustee and the Owner or Owners, the Trustee must be satisfied that it will suffer no unreimbursed liabilities, expenses and costs from available funds in the Trustee's possession and control or from funds made available to the Trustee from the Owner or Owners; and (iv) if the Trustee has determined that it would be in the best economic interest of the Trustee and the Owner or Owners to take any such action and its aforementioned liabilities, expenses and costs will be adequately reimbursed the Trustee has so notified the Owner or Owners and has not received, within 30 days of such notification, instructions from the Owner or Owners of a majority of the Bonds Outstanding directing it not to take such action.

If the foregoing conditions are not satisfied and the Trustee is not willing to waive such conditions and initiate foreclosure proceedings, then the Trustee shall take such actions as are reasonably necessary or appropriate in order to facilitate the appointment of a co-trustee, being a person or entity designated by the Owner or Owners and to assign to such person or entity (subject, however, to the trusts created pursuant to the Indenture) the beneficial interest under the Deed of Trust which secures the obligations under the Loan Agreement for the limited purpose of conducting a foreclosure of such Deed of Trust and receiving and holding any title to real estate obtained as a result of such foreclosure.

Notwithstanding anything in the Indenture, the Deed of Trust, the Loan Agreement or any document to the contrary, only assets under by the Trustee under the Indenture or funds provided by the Owner or Owners may be used to remedy an environmental contamination and the Trustee will not have personal liability for clean-up costs, unless the environmental contamination is a result of negligent acts of the Trustee in its fiduciary capacity.

So long as the Contract of Insurance is in effect and the Office is not in default thereunder, the Office may foreclose on the Deed of Trust pursuant to the terms of the Regulatory Agreement.

Amendment of Indenture

The Authority and the Trustee may, by supplemental indenture, without the consent of any Owners but with the written consent of the Corporation and the Office, amend the Indenture only for certain purposes specified in the Indenture, including (1) to add to the covenants and agreements of the Authority, to pledge or assign additional security for the Bonds (or any portion thereof), or to surrender any right or power reserved to or conferred upon the Authority; (2) to make provisions to cure any ambiguity, inconsistency or omission, or to cure or correct any defective provision, contained in the Indenture or in regard to matters or questions arising under the Indenture, not inconsistent with the Indenture; (3) to make additions, deletions or modifications as may be necessary to assure compliance with Section 145 or 148 of the Code, or otherwise to ensure the exclusion from gross income under federal tax law of interest on the Series 2008A Bonds; (4) to modify, amend or supplement the Indenture to permit qualification under the Trust Indenture Act of 1939, as amended; or (5) modify, amend or supplement the provisions relating to the giving of notice to comply with the Securities and Exchange Commission guidelines. With the consent of the Corporation, the Office and the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding, a supplemental indenture may amend the Indenture in any manner, provided that no such supplemental indenture shall (1) extend the fixed maturity of any Bond, reduce the amount of principal thereof, reduce the rate of interest thereon, extend the time of payment of interest thereon, extend the time of payment or reduce the amount of any Mandatory Sinking Account Payment, or reduce any premium payable upon the redemption thereof, without the consent of the Owner of each Bond so affected, or (2) reduce the aforesaid percentage of Bonds the consent of the Owners of which is required for such modification or amendment, or permit the creation of any lien on the Revenues and other assets pledged under the Indenture prior to or on a parity with the lien created by the Indenture or deprive the Owners of the Bonds of the lien created by the Indenture upon the Revenues and other assets (except as expressly provided in the Indenture and the Loan Agreement), without the consent of the Owners of all the Bonds then Outstanding.

Defeasance

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

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

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

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

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

DEED OF TRUST

The obligations of the Corporation pursuant to the Loan Agreement and the Regulatory Agreement are secured by the lien of the Deed of Trust upon the Facilities. With the consent of the Office, the Deed of Trust may be amended or terminated at any time, without the necessity of obtaining the consent of the Indenture Trustee, the Authority or the holders of the Bonds or of Parity Debt.

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

Upon the failure of a Corporation to perform its obligations as required under the Deed of Trust, the Trustee or the Authority and the Office, as beneficiaries, may elect to do any or all of the following: (1) make any such payment or do any such act in such manner and to the extent necessary to protect the security of the Deed of Trust; (2) pay, purchase, contest or compromise any claim, debt, lien, charge or encumbrance which may affect or appear to affect the security of the Deed of Trust; (3) take possession of, and manage, operate or lease, the Property; and (4) declare all sums secured by the Deed of Trust to be immediately due and payable and sell the Facilities (and/or the leasehold interest encumbered by the Leasehold Deed of Trust) to satisfy the lien of the Deed of Trust. If the Trustee elects to foreclose and sell, there are certain applicable statutory time periods which must expire before such proceedings will be effective. Notwithstanding the foregoing, so long as the Office is obligated under and not in default under the Contract of Insurance, all rights and remedies under the Deed of Trust may be exercised solely by the Office.

The Regulatory Agreement confers certain powers and rights upon the Office which may limit the discretion of the Deed Trustee under an Amended Deed of Trust. Before the benefits of the insurance are to be paid, the Office may require such trustee to (1) foreclose on an Amended Deed of Trust and convey title to the Facilities to the Office; or (2) assign all security interests of the Bondholders under an Amended Deed of Trust to the Office. In addition, the Office may share in the lien of an Amended Deed of Trust with the interests of the Bondholders on a pro rata basis for advances made from the Insurance Fund for payment on the Bonds. See "REGULATORY AGREEMENT" herein.

CONTRACT OF INSURANCE

The Contract of Insurance is an agreement among the Office, the Corporation and the Authority whereby the Corporation and the Authority agree to abide by the terms of the principal documents, and the Office agrees that the Bonds are eligible for insurance and are thereby insured under the Insurance Law. The Contract of Insurance provides that the insurance may be terminated only (1) upon payment in full of the insurance, (2) upon payment in full of the principal and interest with respect to the Bonds and other amounts owing to the Owners and the Trustee under the Indenture, (3) upon joint written request of the Corporation, the Authority, and all the Owners, or (4) if the Deed of Trust is judicially foreclosed, or the Trustee, the Authority or the Owners nonjudicially foreclose or otherwise acquire such property after a Loan Default Event and the Authority and the Trustee do not execute and deliver a grant deed, trustee deed or quitclaim deed for such property to the Office within sixty days of foreclosure or other acquisition, or if the Trustee does not surrender the Bonds to the Office within sixty days of surrender of such Bonds to the Trustee to be exchanged for debentures, provided that such conveyance or surrender is not restrained or enjoined by any court or governmental body or agency.

REGULATORY AGREEMENT

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

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

A. The Corporation shall operate the Facilities as revenue producing health care facilities. The Corporation shall fix, charge and collect, or cause to be fixed, charged and collected, subject to applicable requirements or restrictions imposed by law, such rates, fees and charges which, together with all other receipts and revenues of the Corporation and any other funds available therefor, are reasonably projected to be sufficient to produce Net Income Available for Debt Service for each Fiscal Year beginning after 2010 equal to at least 1.25 times Maximum Aggregate Annual Debt Service, measured as of the end of each such Fiscal Year.

B. The Corporation shall maintain, as of the end of each Fiscal Year beginning after the Closing Date a current ratio (a ratio of current assets plus unrestricted investments to current liabilities, as determined in accordance with generally accepted accounting principles and as shown on the Corporation's audited financial statements for such Fiscal Year) of at least 1.25:1.0.

C. The Corporation shall have: (i) as of the end of the Fiscal Year beginning August 1, 2008, a non-restricted cash balance, including unrestricted investments, of not less than 25 Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year; (ii) as of the end of the Fiscal Year beginning July 1, 2009, a non-restricted cash balance, including unrestricted investments, of not less than 35 Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year; and (iii) as of the end of the Fiscal Year beginning July 1, 2010 and each Fiscal Year thereafter, a non-restricted cash balance, including unrestricted investments, of not less than 45 Days Cash on Hand, as shown on the Corporation's audited financial statements for such Fiscal Year. For purposes of this requirement, "Days Cash on Hand" shall mean, for any Fiscal Year, the quotient obtained by dividing (1) the Corporation's cash and cash equivalents, plus unrestricted investments, as of the end of such Fiscal Year by (2) the quotient of dividing (a) the Corporation's operating expenses (excluding depreciation, amortization, allowance for bad debts, and any other noncash expenses) for such Fiscal Year by (b) the number of days in such Fiscal Year.

D. Within one hundred twenty (120) days after the end of each Fiscal Year (commencing with the first full Fiscal Year after the Closing Date), the Corporation shall compute (1) the Net Income Available for Debt Service and Maximum Aggregate Annual Debt Service, (2) the current ratio and (3) the Days Cash on Hand for such Fiscal Year and promptly furnish to the Authority, if the Authority so requests, the Trustee and the Office a Statement setting forth the results of such computation.

The Corporation further covenants and agrees that if, at the end of any Fiscal Year, (i) Net Income Available for Debt Service shall have been less than the amount specified in Subsection A of this Section for such Fiscal Year, (ii) the current ratio shall have been less than that required by Subsection B of this Section for such Fiscal Year, or (iii) the Days Cash on Hand shall have been less than that required by Subsection C of this Section for such Fiscal Year, it will promptly employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Corporation or the methods of operation of the Corporation which will result in producing (x) Net Income Available for Debt Service at least equal to the amount required by Subsection A of this Section V for such Fiscal Year, (y) a current ratio as required by Subsections B of this Section in the current Fiscal Year and (z) Days Cash on Hand as required by Subsection C of this Section for such Fiscal Year; provided, however, the Corporation need not so employ a Management Consultant if the Office consents, in writing, to a waiver of said covenant to employ a Management Consultant. Copies of the recommendations of the Management Consultant shall be filed with the Authority, if the Authority so requests, the Trustee and the Office. The Corporation shall, to the extent feasible, promptly upon its receipt of such recommendations, subject to applicable requirements or restrictions imposed by law, revise its rates, fees and charges or its methods of operation or collections and shall take such other action as shall be in conformity with such recommendations; provided, however, the Corporation need not make such revisions or take such actions in conformity with such recommendations if (1) the Board makes a good faith determination that such recommendations, in whole or in part, are not in the best interests of the Corporation, and (2) the Office gives its written consent to the effect that the Corporation need not comply, in whole or in part, with such recommendations. In the event that the Corporation fails to comply with the recommendations of the Management Consultant, the Office may replace existing management with new management, which shall be chosen unilaterally by the Office.

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

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

Limitation on Encumbrances

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

Limitation on Indebtedness

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

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

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

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

4. Liabilities for contributions to self-insurance programs;

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

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

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

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

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

b. (1) Net Income Available for Debt Service, as certified by a written report of an Accountant which shall be filed with the Authority, if the Authority so requests, the Trustee and the Office for the most recent Fiscal Year for which audited financial statements are available immediately preceding the date of incurrence of such Long-Term Indebtedness was at least equal to 1.20 times Maximum Aggregate Annual Debt Service on all outstanding Long-Term Indebtedness and the Long-Term Indebtedness proposed to be incurred, or

(2) (a) Net Income Available for Debt Service, as certified by a written report of an Accountant which shall be filed with the Trustee and the Office, for the most recent Fiscal Year for which audited financial statements are available immediately preceding the date of

incurrence of such Long-Term Indebtedness was at least equal to 1.20 times Maximum Aggregate Annual Debt Service on all Long-Term Indebtedness then outstanding, and

(b) Net Income Available for Debt Service, as shown in a written feasibility report prepared by a Management Consultant and filed with the Trustee and the Office, for each of the first two Fiscal Years following the incurrence of such Long-Term Indebtedness (or, if such Long-Term Indebtedness is incurred to finance additional facilities, in each of the first three Fiscal Years following the Fiscal Year when it is proposed that such Facilities will be completed and placed in service) is forecasted to be at least 1.20 times Maximum Aggregate Annual Debt Service on all Long-Term Indebtedness proposed to be outstanding at the end of each such Fiscal Year;

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

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

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

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

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

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

9. Liabilities under capitalized lease agreements for the lease of, or indebtedness for money borrowed or liabilities under instruments evidencing deferred payment arrangements for the purchase of, equipment, tangible personal property or real property; provided that the aggregate amount incurred by the Corporation under this Subsection, Subsection 3 and Subsection 8 and outstanding shall not exceed at the time of incurrence ten percent (10%) of the Corporation's Adjusted Annual Operating Revenues for the latest Fiscal Year for which audited financial statements are available;

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

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

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

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

Limitations on Disposition of Property

The Corporation shall not dispose of any cash or cash equivalents unless certain conditions are satisfied as specified in the Regulatory Agreement. The Corporation shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the real property described in Exhibit A to the Regulatory Agreement, including the buildings and structures thereon and fixtures and improvements of such real property, except for Permitted Encumbrances, without the prior written consent of the Office. The Corporation shall not sell, lease, sublease, assign, transfer, encumber or otherwise dispose of all or any part or parts of the Facilities, even if not otherwise prohibited in the Regulatory Agreement, other than in the "ordinary course of business," unless the Office gives its prior written consent to such disposition. "Ordinary course of business" is defined during the term of the Regulatory Agreement by the Office in the exercise of its sound and reasonable discretion, by the Office giving written notice thereof to the Corporation, which determination will become effective on receipt of such notice by the Corporation.

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

Limitation on Acquisition of Property, Plant and Equipment

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

Parity Debt

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

1. The Trustee shall act as trustee for the Parity Debt, if a trustee is appointed to act with respect to such debt;

2. The agreement under which Parity Debt is issued shall require that:

    a. A Loan Default Event shall constitute an event of default under such agreement and the Regulatory Agreement;

    b. Rights and obligations of the holders of Parity Debt shall be substantially the same as the rights and obligations of the Holders of Bonds under the Indenture, except that if the Parity Debt is not covered under the Contract of Insurance, the holders of Parity Debt shall have no rights under the Contract of Insurance for payments made with respect thereto; and

    c. Remedies upon an event of default shall be substantially the same as the remedies provided in the Indenture, the Regulatory Agreement and the Loan Agreement, and, prior to exercising any such remedies, the holders of such Parity Debt (or a trustee representing their interest) shall be required to cooperate with the Trustee to the end that the interests of such holders and the Bondowners shall be equally protected;

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

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

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

In this regard, the Office acknowledges and confirms that the Corporation's obligations under the Loan Agreement with respect to the Series 2008A Bonds and with respect to the (Taxable) Series 2008B Bonds are each Parity Debt with respect to the other and that the Corporation's incurrence of the same satisfy all applicable provisions of the Regulatory Agreement relative to Parity Debt.

Insurance

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

1. Property Insurance.

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

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

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

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

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

3. Boiler and Machinery Insurance. The Corporation shall maintain boiler and machinery insurance providing coverage against loss of property and liability for damage to persons or property from explosion of, or accident to, boilers, tanks, pipes, pressure vessels, engines, wheels, electrical machinery, or apparatus connected

therewith or operating thereby in an amount not less than $1,000,000, subject to deductibles not exceeding $10,000 per occurrence. The policy form shall also include Joint Loss Endorsement.

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

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

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

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

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

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

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

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

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

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

Disposition of Insurance and Condemnation Proceeds

The proceeds of Property and Builders Risk insurance maintained by the Corporation pursuant to the Regulatory Agreement, the proceeds of any title insurance obtained pursuant to the Regulatory Agreement, and the proceeds of any condemnation awards with respect to the Facilities, shall be paid immediately upon receipt by the Corporation or other named insured parties to the Trustee, as assignee of the Authority, for deposit in the "Insurance and Condemnation Proceeds Fund" established and maintained by the Trustee under the Indenture. In the event the Corporation elects to repair or replace the property damaged, destroyed or taken, it shall furnish to the Trustee and the Office plans of the contemplated repair or replacement, accompanied by a Statement of an architect or other qualified expert satisfactory to the Office estimating the reasonable cost of such repair or replacement and a Statement of the Corporation stating that amounts in the Insurance and Condemnation Proceeds Fund, together with investment income reasonably expected to be received with respect thereto and any other funds available or reasonably expected to become available therefor (and which the Corporation shall agree to deposit in said fund when so available), shall be sufficient to repair or replace the property damaged, destroyed or taken in accordance with said plans. After deducting therefrom the reasonable charges and expenses of the Trustee in connection with the collection and disbursement of such moneys, moneys in the Insurance and Condemnation Proceeds Fund shall be disbursed by the Trustee for the purpose of repairing or replacing the property damaged, destroyed or taken in the manner and subject to the conditions set forth in the Indenture with respect to disbursements from the Project Fund to the extent the provisions thereof may reasonably be made applicable. In the event that the proceeds of any loss or damage to or condemnation of the Facilities shall be less than one and one-half percent (1-1/2%) of the Corporation's Adjusted Annual Operating Revenues (as shown on the Corporation's most recent audited financial statements), and so long as an event of default under the Regulatory Agreement has not occurred and is not then continuing, the Trustee shall pay over such proceeds to the Corporation without requiring any of the documents referred to in this subsection and without any formality whatsoever.

In the event the Corporation, with the consent of the Office, shall elect not to repair or replace the property damaged, destroyed or taken, as provided in subsection A of this section, the Trustee shall transfer all amounts in each Insurance and Condemnation Proceeds Fund on account of such damage, destruction or condemnation to the Special Redemption Account established and maintained under the same Indenture in order to prepay the Loan Repayments and redeem Bonds. Notwithstanding the foregoing, in the event that Parity Debt is outstanding (in addition to the Series 2008 A Bonds and the Series 2008B Bonds) at such time as the Corporation receives or is entitled to receive the proceeds of any insurance or condemnation award referred to in this section, the Trustee shall deposit such proceeds in part in the Insurance and Condemnation Proceeds Funds and in part in the equivalent fund established and maintained by the Trustee with respect to such Parity Debt as may be appropriate (and used for the retirement of such Parity Debt) in the same proportion which the aggregate principal amount of Outstanding Bonds then bears to the aggregate unpaid principal amount of such Parity Debt.

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

Remedies Upon Default

The Regulatory Agreement provides that the Office shall have certain remedies upon an event of default under the Regulatory Agreement, the Deed of Trust, the Indenture or the Loan Agreement. The following is only a summary of those remedies.

A. Notice and Declaration of a Default under the Regulatory Agreement. Upon an event of default under the Regulatory Agreement, the Deed of Trust, the Indenture, or the Loan Agreement, the Office shall have the remedies provided by California Health and Safety Code section 129173, which are incorporated in the Regulatory Agreement, as well as the following. The Office may give written notice thereof to the Corporation by registered or certified mail, addressed to the address stated in the Regulatory Agreement, or such other address as may subsequently, upon appropriate written notice thereof to the Office, be designated by the Corporation as its legal business address. If such violation is not corrected to the satisfaction of the Office within thirty (30) days, or in the event the default is the result of the failure of the Corporation to make a payment required to be made to the Trustee or the result of the loss or threatened loss of the license of the Corporation, then five (5) days, after the date such notice is mailed or within such further time as the Office determines in the Office's sole discretion is necessary to correct the violation, without further notice the Office may declare a default under the Regulatory Agreement effective on the date of such declaration of default.

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

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

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

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

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

Capital Replacement Fund

The Corporation shall establish a separate fund designated as the "Capital Replacement Fund." For each of the Corporation's Fiscal Years beginning with the Corporation's Fiscal Year commencing on July 1, 2009, the Corporation shall deposit on a quarterly basis (i.e. on July 1, October 1, January 1 and April 1 of each Fiscal Year) one quarter of the Capital Replacement Amount for the respective Fiscal Year; provided that if the Corporation has received grants for the purchase of, or has purchased equipment for capital purposes, or has expended sums for the repair or maintenance of the Facilities, such grants, the value of such equipment or expended sums may be credited against the amount to be deposited as specified in a Statement of the Corporation filed with the Trustee and the

Office; provided further that the Corporation may reduce the deposit required to the Capital Replacement Fund by a Capital Replacement Fund credit which shall be an amount equal to the expenditures of the Corporation for the previous Fiscal Year for property which is depreciable (in accordance with generally accepted accounting principles). In order to be entitled to receive such a credit, the Corporation must certify in writing to the Office along with the certification required in the Regulatory Agreement.

Moneys held in the Capital Replacement Fund may be used from time to time without the consent of the Office for any of the following purposes: (1) For the acquisition of new, or the replacement of obsolete or worn out, machinery, equipment, furniture, fixtures or other personal property; (2) For the performance of repairs with respect to the Facilities which are of an extraordinary and nonrecurring nature; and (3) For the construction of additions to or improvements, extensions, enlargements or remodeling of the Facilities. In addition, moneys held in the Capital Replacement Fund may also be used from time to time, with the consent of the Office: (4) To provide working capital for the payment of current expenses if the Corporation shall undertake in writing to repay the amount withdrawn for such purpose within fifty-two (52) weeks, provided that no such borrowing pursuant to this clause shall be outstanding for a period of at least thirty (30) consecutive days during each period of thirteen (13) consecutive months beginning with the first deposit to the Capital Replacement Fund and (5) To pay or provide funds for payment of the principal (whether pursuant to stated maturity or mandatory sinking fund or other redemption requirement) or interest on any obligations of the Corporation, but only if and to the extent that the Corporation would otherwise be unable to make such payment or provide such funds without incurring additional indebtedness.

The Corporation, on or prior to August 1 in each year, commencing August 1, 2010, shall calculate the Capital Replacement Amount and send written certification of such amount to the Office.

The Capital Replacement Fund shall be maintained and held by the Corporation and shall not constitute a Trustee-held fund, provided, however, that the Capital Replacement Fund, at the direction of the Office, shall be transferred to and held by the Trustee if either: (1) the annual Statement of the Corporation's Accountant demonstrates that the balance in the Capital Replacement Fund is less than the Capital Replacement Amount and the Corporation does not increase the balance in the Capital Replacement Fund to the Capital Replacement Amount within thirty (30) days of receipt of such Statement, or (2) the Gross Revenue Fund is transferred to the name and credit of the Trustee pursuant to the Loan Agreement.

Debt Coverage Ratio Reporting

Within forty-five (45) days after each September 30, December 31, March 31 and June 30 (each three-month period ending on each such date being referred to herein as a "Fiscal Quarter") commencing with the Fiscal Quarter ending on December 31, 2008, the Corporation shall compute the Net Income Available for Debt Service for such Fiscal Quarter and for the twelve-month period ending on the last day of such Fiscal Quarter ("Running Twelve-Month Period") and promptly furnish to the Office a Statement setting forth the results of such computation. If at the end of any such Fiscal Quarter beginning after 2010, the Net Income Available for Debt Service shall have been less than 1.25 times Maximum Aggregate Annual Debt Service for the applicable Fiscal Quarter or Running Twelve-Month Period, the Corporation shall, upon the request of the Office, employ a Management Consultant to make recommendations as to a revision of the rates, fees and charges of the Facilities or the methods of operation of the Facilities which will result in producing Net Income Available for Debt Service equal to at least 1.25 times Maximum Aggregate Annual Debt Service. Copies of the recommendations of the Management Consultant shall be provided to the Office. The Office also may retain attorneys and consultants to assist in an evaluation of the operation and management of the Facilities and the Corporation shall pay the reasonable fees and expenses of such attorneys and consultants and any expenses incurred by the Office in that connection.

APPENDIX D

FORMS OF APPROVING OPINIONS OF BOND COUNSEL]

[TO BE DATED THE DATE OF ORIGINAL ISSUANCE]

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

Re: California Statewide Communities Development Authority Insured Health Facility Revenue Bonds (Institute on Aging) Series 2008A

Ladies and Gentlemen:

We have served as bond counsel in connection with the issuance by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") of $36,620,000 aggregate principal amount of ABAG Finance Authority for Nonprofit Corporations Insured Health Facility Revenue Bonds (Institute on Aging) Series 2008A (the "Bonds"), issued pursuant to of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California (the "Law"), and an Indenture dated as of August 1, 2008 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Bonds have been issued for the purpose of making a loan of the proceeds thereof to Institute on Aging (the "Borrower"), pursuant to a Loan Agreement dated as of August 1, 2008 (the "Loan Agreement"), between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Indenture.

For purposes of rendering our opinion, we have reviewed the Indenture, the Loan Agreement, a Tax Agreement dated the date hereof (the "Tax Agreement") between the Authority and the Borrower, opinions of counsel to the Authority and to the Borrower, certificates of the Authority, the Trustee, the Borrower and others, and such certified proceedings and other papers as we have determined to be necessary. As to questions of fact material to our opinion, we have relied upon representations and warranties made by the Authority and the Borrower in the Indenture and the Loan Agreement, and the certificates and certified proceedings referred to above. We have assumed, without verification, the accuracy of the factual matters so represented, warranted or certified. In addition, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Agreement. Continuing compliance with some of such covenants and agreement is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We also have assumed the genuineness of all documents and signatures presented to us (whether as original documents or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority.

In rendering this opinion, we have relied, among other things, on the opinions of Folger Levin & Kahn, San Francisco, California, counsel to the Borrower, regarding the current qualification of the Borrower as an organization described in Section 501(c)(3) of the Internal Revenue Code ("Code"). Such opinion is subject to a number of qualifications and limitations. Failure of the Borrower to be an organization described in Section 501(c)(3) of the Code may result in interest on the Bonds being included in gross income for federal income tax purposes, potentially from the date of issuance of the Bonds.

Our opinions are based on our analysis of existing statutes, regulations, rulings and court decisions. Changes in such laws may adversely affect our opinions expressed herein. In rendering our opinions, we undertake no responsibility to monitor any such changes or to advise any person with respect thereto. Further, we undertake no responsibility to monitor ongoing compliance by any person with any of the covenants or agreements in the Indenture, the Loan Agreement, the Tax Agreement or other documents relating to the Bonds, even though failure to comply with such covenants or agreement may adversely affect our opinions expressed herein. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

We express no opinion herein as to the accuracy, completeness or sufficiency of any offering material relating to the Bonds. We have not passed upon any matters relating to the business, affairs or condition (financial or otherwise) of the Borrower and no inference should be drawn that we have expressed any opinion on matters relating to the ability of the Borrower to perform its obligations under the contracts described herein.

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 nor of 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. This opinion shall not be deemed or treated as an offering memorandum, 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.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

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.

Based upon and subject to the foregoing and the matters referred to below, we are of the opinion that:

1. The Indenture and the Loan Agreement have been duly executed and delivered by, and constitute the valid and binding obligation and agreement of, the Authority.

2. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds (on a parity with other bonds, if any, issued or to be issued under the Indenture), of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the

Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Bonds are the valid and binding limited obligations of the Authority, payable solely from the sources provided therefore in the Indenture.

4. The interest on the Bonds (including any original issue discount properly allocable to the owner thereof) (i) is excluded from gross income of the owners of the Bonds for federal income tax purposes as of the date hereof and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on all taxpayers; however, such interest is taken into account in determining adjusted current earnings for purposes of computing the alternative minimum tax imposed on certain corporations. The Authority has included provisions and procedures in the Indenture, the Loan Agreement and the Tax Agreement in order to meet certain requirements of the Code subsequent to the issuance of the Bonds. The opinion set forth in the first sentence of this paragraph is subject to the condition that the Borrower comply with, and each Borrower has covenanted to comply with, each such requirement. Failure to comply with certain of such requirements may 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. We express no opinion regarding other federal income tax consequences arising with respect to the Bonds.

5. The interest on the Bonds is exempt from State of California personal income taxes.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the exercise of judicial discretion in appropriate cases, and limitations on legal remedies against public agencies in the State of California.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings, and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. With the delivery of this opinion, our engagement with respect to the Bonds has concluded. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement, and related agreements, certificates and instruments, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not affect the validity of the Bonds, the Indenture or the Loan Agreement or cause interest on the Bonds to be included in gross income for federal income tax purposes pursuant to the provisions of the Code.

We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to any of the real or personal property described in the Indenture or the Loan Agreement or the accuracy or sufficiency of the description of any such property contained therein.

We have acted in this transaction as Bond Counsel to the Authority. This opinion is addressed to you solely for your benefit in connection with the initial issuance and delivery of the Bonds on the date hereof. No persons other than you may rely upon this letter without our express prior written consent. This opinion may not be utilized for any other purpose and may not be quoted without our express prior written consent. This opinion speaks only as of its date and is limited to the opinions expressly stated herein. We assume no obligation to review, supplement or update this opinion subsequent to its date, whether by reason of a change in law, legislative or regulatory action, judicial decision or for any other reason.

Respectfully submitted,

[TO BE DATED THE DATE OF ORIGINAL ISSUANCE]

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

Re: California Statewide Communities Development Authority
Insured Health Facility Revenue Bonds
(Institute on Aging) (Taxable) Series 2008B

Ladies and Gentlemen:

We have served as bond counsel in connection with the issuance by the ABAG Finance Authority for Nonprofit Corporations (the "Authority") of $4,785,000 aggregate principal amount of ABAG Finance Authority for Nonprofit Corporations Insured Health Facility Revenue Bonds (Institute on Aging) (Taxable) Series 2008B (the "Bonds"), issued pursuant to of Chapter 5 of Division 7 of Title 1 (commencing with Section 6500) of the Government Code of the State of California (the "Law"), and an Indenture dated as of August 1, 2008 (the "Indenture"), by and between the Authority and Wells Fargo Bank, National Association, as trustee (the "Trustee"). The Bonds have been issued for the purpose of making a loan of the proceeds thereof to Institute on Aging (the "Borrower"), pursuant to a Loan Agreement dated as of August 1, 2008 (the "Loan Agreement"), between the Authority and the Borrower. Capitalized terms not otherwise defined herein shall have the meanings ascribed to them in the Indenture.

For purposes of rendering our opinion, we have reviewed the Indenture, the Loan Agreement, opinions of counsel to the Authority and to the Borrower, certificates of the Authority, the Trustee, the Borrower and others, and such certified proceedings and other papers as we have determined to be necessary. As to questions of fact material to our opinion, we have relied upon representations and warranties made by the Authority and the Borrower in the Indenture and the Loan Agreement, and the certificates and certified proceedings referred to above. We have assumed, without verification, the accuracy of the factual matters so represented, warranted or certified. In addition, we have assumed compliance with all covenants and agreements contained in the Indenture and the Loan Agreement. We also have assumed the genuineness of all documents and signatures presented to us (whether as original documents or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Authority.

Our opinions are based on our analysis of existing statutes, regulations, rulings and court decisions. Changes in such laws may adversely affect our opinions expressed herein. In rendering our opinions, we undertake no responsibility to monitor any such changes or to advise any person with respect thereto. Further, we undertake no responsibility to monitor ongoing compliance by any person with any of the covenants or agreements in the Indenture, the Loan Agreement or other documents relating to the Bonds, even though failure to comply with such covenants or agreement may adversely affect our opinions expressed herein. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter.

We express no opinion herein as to the accuracy, completeness or sufficiency of any offering material relating to the Bonds. We have not passed upon any matters relating to the business, affairs or condition (financial or otherwise) of the Borrower and no inference should be drawn that we have expressed any opinion on matters relating to the ability of the Borrower to perform its obligations under the contracts described herein.

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 nor of 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. This opinion shall not be deemed or treated as an offering memorandum, 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.

Certain agreements, requirements and procedures contained or referred to in the Indenture, the Loan Agreement and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken or omitted under the circumstances and subject to the terms and conditions set forth in such documents. No opinion is expressed herein as to any Bond or the interest thereon if any such change occurs or action is taken or omitted upon the advice or approval of counsel other than ourselves.

The opinions set forth below are expressly limited to, and we opine only with respect to, the laws of the State of California.

Based upon and subject to the foregoing and the matters referred to below, we are of the opinion that:

1. The Indenture and the Loan Agreement have been duly executed and delivered by, and constitute the valid and binding obligation and agreement of, the Authority.

2. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds (on a parity with other bonds, if any, issued or to be issued under the Indenture), of the Revenues and any other amounts held by the Trustee in any fund or account established pursuant to the Indenture, except the Rebate Fund, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture.

3. The Bonds are the valid and binding limited obligations of the Authority, payable solely from the sources provided therefore in the Indenture.

4. The interest on the Bonds is exempt from State of California personal income taxes.

The rights of the owners of the Bonds and the enforceability of the Bonds, the Indenture and the Loan Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium, fraudulent conveyance and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the exercise of judicial discretion in appropriate cases, and limitations on legal remedies against public agencies in the State of California.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings, and court decisions and cover certain matters not directly addressed by such authorities.

Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions or events are taken or do occur. With the delivery of this opinion, our engagement with respect to the Bonds has concluded. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement, and related agreements, certificates and instruments, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not affect the validity of the Bonds, the Indenture or the Loan Agreement.

We express no opinion with respect to any indemnification, contribution, choice of law, choice of forum or waiver provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to any of the real or personal property described in the Indenture or the Loan Agreement or the accuracy or sufficiency of the description of any such property contained therein.

We have acted in this transaction as Bond Counsel to the Authority. This opinion is addressed to you solely for your benefit in connection with the initial issuance and delivery of the Bonds on the date hereof. No persons other than you may rely upon this letter without our express prior written consent. This opinion may not be utilized for any other purpose and may not be quoted without our express prior written consent. This opinion speaks only as of its date and is limited to the opinions expressly stated herein. We assume no obligation to review, supplement or update this opinion subsequent to its date, whether by reason of a change in law, legislative or regulatory action, judicial decision or for any other reason.

Respectfully submitted,

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (the "Disclosure Agreement") is executed and delivered by Wells Fargo Bank, National Association, San Francisco, California, in its capacity as dissemination agent hereunder (the "Dissemination Agent") and the Institute on Aging, a California nonprofit public benefit corporation (the "Borrower") in connection with the issuance of $36,620,000 ABAG Finance Authority for Nonprofit Corporations Insured Health Facility Revenue Bonds (Institute on Aging), Series 2008A and $4,785,000 Insured Health Facility Revenue Bonds (Institute on Aging), (Taxable) Series 2008B (collectively, the "Bonds").

The Bonds are being issued pursuant to an Indenture, dated as of August 1, 2008 (the "Indenture"), between the ABAG Finance Authority for Nonprofit Corporations (the "Authority") and Wells Fargo Bank, National Association (the "Trustee"). The proceeds of the Bonds are being loaned by the Authority to the Borrower pursuant to a Loan Agreement, dated as of August 1, 2008 (the "Loan Agreement"), between the Authority and the Borrower. The Borrower and the Dissemination Agent covenant and agree as follows:

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

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

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

"*Dissemination Agent*" shall mean, initially, Wells Fargo Bank, National Association, San Francisco, California, and thereafter any successor Dissemination Agent designated in writing by the Borrower and which has accepted such designation.

"*Listed Events*" shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

"*National Repository*" shall mean any Nationally Recognized Municipal Securities Information Repository for purposes of the Rule, as they may be designated from time to time pursuant to the Rule. Any filing under this Disclosure Agreement with a National Repository may be made solely by transmitting such filing to the Texas Municipal Advisory Council (the "MAC") as provided at http://www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretive advice in its letter to the MAC dated September 7, 2004.

"*Participating Underwriter*" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"*Report Date*" shall mean seven months after the end of the Borrower's fiscal year, which would currently be January 31 based upon the Borrower's current June 30 fiscal year end.

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

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

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

Section 3. <u>Provision of Annual Reports</u>. (a) The Borrower shall, or shall cause the Dissemination Agent to, not later than the Report Date, beginning on January 31, 2009, provide to each Repository an Annual Report that is consistent with the requirements of Section 4 of this Disclosure Agreement with a copy to the Trustee; provided, however, that the first Annual Report obligation may be satisfied with the Official Statement for the Bonds. Not later than 15 business days before the Report Date, the Borrower shall provide the Annual Report to the Dissemination Agent (if other than the Borrower). The Annual Report may be submitted as a single document or as separate documents comprising a package, and may include by reference other information as provided in Section 4 of this Disclosure Agreement. The audited financial statements required by Section 4 may be submitted separately from the balance of the Annual Report, and later than the Report Date, if not available by the Report Date. If the Borrower's fiscal year changes, they shall give notice of such change in the same manner as for a Listed Event under Section 5(c). The Borrower shall provide a written certification with each Annual Report furnished to the Dissemination Agent and the Trustee to the effect that such Annual Report constitutes the Annual Report required to be furnished by the Borrower under this Disclosure Agreement. The Dissemination Agent may conclusively rely upon such certification of the Borrower and shall have no duty or obligation to review such Annual Report.

(b) If the Borrower is unable to provide to the Repositories an Annual Report by the Report Date, the Borrower shall, by written direction, cause the Dissemination Agent to provide to each Repository and to the Municipal Securities Rulemaking Board and each State Repository (with a copy to the Trustee) a notice, in substantially the form attached as Exhibit A.

(c) The Dissemination Agent shall:

(1) determine each year prior to the Report Date the name and address of each National Repository and each State Repository, if any; and

(2) if the Dissemination Agent is other than the Borrower, provided it has received the Annual Report pursuant to Section 3(a), file a report with the Borrower certifying that the Annual Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and listing all the Repositories to which it was provided.

Section 4. <u>Content of Annual Reports</u>. The Annual Report shall contain the following:

(a) Audited financial statements prepared in accordance with generally accepted accounting principles. If the Borrower's audited financial statements are not available by the Report Date, the Annual Report shall contain unaudited financial statements in a format similar to the Borrower's audited financial statements, and the Borrower's audited financial statements shall be filed in the same manner as the Annual Report when they become available.

(b) Unless otherwise provided in the audited financial statements filed on or prior to the Report Date, (i) annual participant visits for adult day and PACE programs as compared to the previous fiscal year, and (ii) information in substantially the form of "MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL PERFORMANCE – Sources of Revenue" of Appendix A to the Official Statement.

Any or all of the items listed above may be included by specific reference to other documents, including official statements of debt issues of the Borrower or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document included by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Borrower shall clearly identify each such other document so included by reference.

(c) Such further information, if any, as may be necessary to make the specifically required statements, in the light of the circumstances under which they are made, not misleading.

(d) The items of subsection 4(a)-(c) shall be supplemented, if applicable, by event notices which have been filed pursuant to Section 5.

Section 5. Reporting of Significant Events.

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

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

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

(c) If the Borrower determines that knowledge of the occurrence of a Listed Event would be material under applicable Federal securities law, the Borrower shall promptly file (or cause the Dissemination Agent to file) a notice of such occurrence with the Municipal Securities Rulemaking Board and each State Repository, with a copy to the Trustee. Notwithstanding the foregoing, notice of Listed Events described in subsections (a)(viii) and (ix) need not be given under this subsection any earlier than the notice (if any) of the underlying event is given to holders of affected Bonds pursuant to the Indenture.

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

Section 7. Dissemination Agent. The Borrower may, from time to time, appoint or engage a Dissemination Agent to assist them in carrying out its obligations under this Disclosure Agreement, and may discharge any such Dissemination Agent, with or without appointing a successor Dissemination Agent. The Dissemination Agent may resign by providing thirty days written notice to the Borrower and the Trustee. The initial Dissemination Agent is Wells Fargo Bank, National Association

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

(a) if the amendment or waiver relates to the provisions of Section 3, 4 or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of an obligated person with respect to the Bonds, or type of business conducted;

(b) the undertakings herein, as proposed to be or waived, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the primary offering of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances;

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

(d) Neither the Trustee nor the Dissemination Agent shall be obligated to enter into any amendment increasing or affecting its duties or obligations.

If the annual financial information or operating data to be provided in the Annual Report is pursuant to the provisions hereof, the annual financial information containing the operating data or financial information shall explain, in narrative form, the reasons for the amendment and the impact of the change in the type of operating data or financial information being provided.

If an amendment is made to the undertaking specifying the accounting principles to be followed in preparing financial statements, the annual financial information for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information, in order to provide information to investors to enable them to evaluate the ability of the Borrower to meet its obligations. To the extent reasonably feasible, the comparison shall be quantitative. A notice of the change in the accounting principles shall be sent to the Repositories in the same manner as for a Listed Event under Section 5(c).

Section 9. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Borrower from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Borrower choose to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Borrower shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

Section 10. Default. In the event of a failure of the Borrower to comply with any provision of this Disclosure Agreement, any holder or beneficial owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Borrower to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Borrower to comply with this Disclosure Agreement shall be an action to compel performance.

Section 11. Duties, Immunities and Liabilities of Dissemination Agent. Article VIII of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture. The Dissemination Agent shall be entitled to the protections and limitations from liability afforded to the Trustee thereunder. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and the Borrower agree to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The Dissemination Agent shall be paid compensation by the Borrower for its services provided hereunder in accordance with its schedule of fees as agreed to between the Dissemination Agent and the Borrower from time to time and all expenses, legal fees and advances made or incurred by the Dissemination Agent in the performance of its duties hereunder. Any company succeeding to all or substantially all of the Dissemination Agent's corporate trust business shall be the successor to the Dissemination Agent hereunder without the execution or filing of any paper or any further act. The obligations of the Borrower under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Bonds.

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

Date: August 28, 2008

INSTITUTE ON AGING

By ____________________________________
Its:

WELLS FARGO BANK, NATIONAL ASSOCIATION
as Dissemination Agent

By:________________________________
Authorized Signatory

EXHIBIT A

NOTICE OF FAILURE TO FILE ANNUAL REPORT

Name of Obligated Party:	Institute on Aging
Name of Issue:	ABAG Finance Authority for Nonprofit Corporations Insured Health Facility Revenue Bonds (Institute on Aging), Series 2008A and (Taxable) Series 2008B
Date of Issuance:	August 28, 2008

NOTICE IS HEREBY GIVEN that the Borrower has not provided an Annual Report with respect to the above-named Bonds as required by the Continuing Disclosure Agreement dated as of August 1, 2008. The Borrower anticipate that the Annual Report will be filed by _________________.

Dated:_____________

INSTITUTE ON AGING

By: ____
Its:

cc: Trustee

[THIS PAGE INTENTIONALLY LEFT BLANK]

APPENDIX F

FEASIBILITY STUDY

[THIS PAGE INTENTIONALLY LEFT BLANK]

MARKET STUDY AND FINANCIAL FEASIBILITY ANALYSIS

Presented to:

INSTITUTE ON AGING

February 26, 2008

February 26, 2008

Mr. David Werdegar
President
Institute on Aging
3330 Geary Boulevard
San Francisco, CA 94118-3347

RE: Market Study and Financial Feasibility Analysis for Institute on Aging

HFS Consultants (HFS) has prepared the following market and financial feasibility analysis (Report) for Institute on Aging (IOA). This analysis is intended to evaluate IOA's ability to meet financial and other requirements, including debt service requirements, construction of the new facility, and reimbursement of previous expenses related to the project.

The purpose of this assignment was to estimate the support for the proposed services in IOA's Primary Service Area, and to estimate the impact of the proposed changes and additions to the organization's financial condition.

The utilization and financial projections included in this Report were undertaken in order to assess the ability of IOA to meet its on-going operating expenses and debt requirements associated with the above-described project. Based on current estimates, the proposed $44,955,000 bond financing will cover all of the project costs.

Consolidated financial statements for IOA are presented in Exhibit A.

Our procedures used to complete the evaluation for IOA included the following:

- Analysis of historical IOA utilization and financial data
- Definition of IOA's Service Areas
- Collection and analysis of historical Service Area-wide utilization data
- Interviews with IOA management (Management), On Lok management and others
- Assessment of factors and trends affecting future IOA utilization, including the construction of the new building
- Preparation of IOA utilization estimates
- Collection of historical and estimated construction and equipment costs, debt service requirements and estimated financing costs
- Review of historical revenue and expense trends including utilization
- Assessment of historical reimbursement trends

- Analysis of the relationship between historical and projected utilization, revenues and expenses
- Analysis of other anticipated uses of cash during the six-year projection period

We also participated in gathering other information, assisting Management in identifying and formulating its assumptions, and in assembling the accompanying market and financial projections.

The accompanying financial projection is based upon assumptions that were provided by, or reviewed with and approved by, Management.

The financial projection includes:

- Forecasted Statement of Operations
- Forecasted Balance Sheet
- Forecasted Statement of Cash Flows
- Forecasted Financial Ratios

The financial projection presents Management's estimates of the most probable financial position, results of its operations, and cash flows for the projection period. The projection reflects Management's judgment, based on present circumstances, of the most likely set of conditions and Management's most likely course of action.

We have compiled the accompanying six-year financial projection for the years 2008 through 2013 based upon a review of IOA's audited financial statements for the years ended June 30, 2005 through 2007 and the internal financial statements for the six months ended December 31, 2007. Our compilation was made in accordance with standards for a compilation of a financial projection established by the American Institute of Certified Public Accountants (AICPA) and, accordingly, included such procedures as we considered necessary to evaluate both the assumptions of Management and the preparation and presentation of the projection. Although standards established by the AICPA were utilized to compile Management's projections, HFS is not a Certified Public Accounting firm.

Legislation and regulations at all levels of government have affected, and may continue to affect the revenues and expenses of health care providers. The financial projection is based upon legislation and regulations currently in effect. If future legislation or regulations related to health care providers and reimbursement are enacted, such legislation or regulations could have a material effect on future operations. There is no assurance, should legislation or regulations be enacted, or, if such enactments were adverse, that IOA could make changes to the facility's revenue and cost structure and that the changes would be sufficient to meet operating requirements.

Our conclusions are presented below:

- In our opinion, the accompanying market and financial projection, which is based on legislation and regulations currently in effect, is presented in conformity with guidelines for presentation of a financial projection established by the AICPA
- In our opinion, the underlying assumptions provide a reasonable basis for Management's projection. However, there will usually be differences between the projected and actual results, due to the fact that events and circumstances frequently do not occur as expected, and those differences may be material
- The accompanying financial projection indicates that sufficient funds could be generated to meet IOA's operating expenses and other financial requirements during the projection period. However, the achievement of any financial projection is dependent upon future events, the occurrence of which cannot be assured

We have no responsibility to update this report for events, circumstances, and regulatory changes occurring after the date of this Report.

HFS CONSULTANTS

February 26, 2008

Table of Contents
Institute on Aging Market Demand Analysis

I. Introduction to the Institute on Aging

Institute on Aging (IOA), a nonprofit corporation, has served older adults in the San Francisco Bay Area since 1985. Its principal office is located at 3330 Geary Boulevard in San Francisco, CA. IOA provides programs and services designed to preserve and enhance independent living, within the community, whenever possible. Serving about 20,000 seniors annually, IOA operates comprehensive health-related programs each intended to realize its mission of enabling seniors to maintain their health, well being and independence, as they age. While the largest individual source of revenue for IOA is the On Lok SeniorHealth plan, a certified PACE (Program of All-Inclusive Care for the Elderly) capitated health plan, IOA is a valued health care resource for other seniors as well. The program specifically is structured to:

- develop models of health and social services dedicated to improving the quality of life and care of the elderly
- improve the health and well being of the elderly by providing easily accessible and integrated medical, psychological and social services
- provide relevant geriatric teaching and research programs
- provide geriatric consultative and planning services for community agencies, public bodies and private industry
- provide innovative programs intended to reduce premature institutionalization of the elderly
- serve as a conservator when needed

<u>Institute on Aging Programs and Services</u>

Currently, IOA operates 18 distinct programs and services.

Daytime Senior Health Centers

The Ruth Ann Rosenberg Adult Day Health Center (3600 Geary Boulevard)
This is an adult day health center focusing on older adults with major health problems. It offers nursing, physical, occupational, and speech therapies as well as therapeutic recreational activities and some personal care services, allowing participants to attend from two to five days per week, depending on the service. The center allows participants to maintain optimal levels of health and independence while residing in the community. Transportation and noon meals are also included. Medi-Cal and private pay clients are welcome.

Memory Loss and Dementia Care

The Alzheimer's Day Center (3600 Geary Boulevard)
This Center is devoted to persons with moderate to severe memory loss or dementia. This program offers structured and interactive activities designed to maximize the mental and physical abilities of each participant. Support groups and respite care for caregivers are also available through this program. The Alzheimer's Day Center allows participants to attend between two to five days per week. Transportation and noon meals are provided.

The Irene Swindells Center for Adult Day Services (3698 California Street)
This Center is a social day program for seniors with mild to moderate dementia and no significant health needs. It provides structured activities in a supportive environment designed to reduce isolation while promoting the physical health, mental stimulation, and creativity of each participant. This is a private pay program and transportation is available for an additional fee.

Managed Care SeniorHealth Centers – On Lok Model

The On Lok Senior Health Provided by IOA (1426 Fillmore St. and 2700 Geary Boulevard)
IOA administers a PACE model Health Management Organization plan which offers acute and long-term care for people 55 years and older. Located in two of IOA's adult day health centers, this capitated health plan provides for adult day health care, nursing, social work, physical, occupational and speech therapies, as well as personal care, primary care specialists, podiatry, audiology and dental care. It is designed for frail seniors who are eligible for nursing home placement but would prefer to stay at home. Transportation and noon meals are available through this program. This health plan is funded through Medicare and Medi-Cal.

Community Outreach

Consortium for Elder Abuse Prevention (3330 Geary Boulevard)
Through this program IOA offers training to professional and community groups in elder abuse prevention. The program strives to increase awareness of the problem of elder abuse and to empower older adults to avoid and resolve abusive situations.

Neighborhood Resource Centers / Information & Referral
At three of its centers (Richmond, Mission and Western Addition/Marina) IOA offers multi-lingual information and referral services for seniors and disabled adults. Its referral services include meals, in-home supportive services, legal assistance, housing information, Medicare/Medi-Cal support (e.g. completion of forms), caregiver support and translation services.

Case Management and Support at Home

Linkages (3626 Geary Boulevard)
This program offers case management for disabled adults 18 years of age and older. It is funded in part by the Commission on Aging, targeting older adults and physically disabled adults over 18 years old. The program seeks to delay or prevent institutional placement of clients through assessment and service coordination.

Multipurpose Senior Services Program (MSSP) (3626 Geary Boulevard)
This is a state supported program, offered through IOA, that serves frail Medi-Cal residents from San Francisco who are 65 years of age or older. Recipients of this program are at risk of needing long term care in facilities outside their home, and consistent with its mission, IOA seeks to prevent that from taking place, if possible.

Older Adults Care Management (OACM) (3335 Birch Street, Palo Alto)
This is a licensed home health agency providing high-quality home health care, personal care assistance, case management, and consultation services to residents of San Francisco County as well as seniors living in Santa Clara and San Mateo Counties. A nursing staff provides skilled assessments, establishes nursing care plans, and provides in-home supervision of IOA's home care aides. These are private pay services and are offered seven days per week.

Supportive Services for Elders (SSE) (3330 Geary Boulevard and 1005 A Street #207 in San Rafael)
This is a private pay program providing personalized assessment, care management and financial/fiduciary services for older adults and their families. The custodial services include tax preparation, real estate management, power-of-attorney and advanced-directives services, as well as estate conservator services including trustee and executor functions.

Psychological Services

Assessment Center (3330 Geary Boulevard)
This center is a multi-dimensional, community-based geriatric assessment program providing comprehensive evaluations of an individual's functional ability and safety, capacity to make decisions, cognitive and mental health, spiritual values, physical health, socio-environmental issues, and the need for legal and financial planning. As needed, after an assessment by a geriatric care manager, follow-up support will be provided to the client and family. Medicare and other insurance plans reimburse this program.

Friendship Line and the Center for Elderly Suicide Prevention (CESP) (3330 Geary Boulevard)
The CESP sponsors a 24-hour telephone support line for adults 60 years of age and above to call when they feel lonely, depressed, isolated, suicidal, experiencing grief, or experiencing a stressful or abusive situation. Outreach services include regularly scheduled telephone calls for emotional support, medication reminders, safety checks, and weekly in-home supportive visits. There is also individual and group grief counseling within this program.

Mental Health and Aging (MHA)

The MHA program (3330 Geary Boulevard)
This program provides comprehensive mental health services for older and dependent adults including psychological and neuro-psychological testing, group therapy and psychotherapy. The services are provided at the Geary street location and on site at various assisted living and skilled nursing homes as well as patients' homes. The program also offers group support and individual psychological counseling for seniors who have suffered elder abuse.

Other Activities

IOA Research Center (3330 Geary Boulevard)
With close ties to UCSF, IOA Research Center conducts studies in community settings with the goal of improving care, promoting greater self-sufficiency for seniors, and serving to inform public policy makers on matter pertaining to geriatric care. Studies include, but are not limited

to, outcome research in community settings, evaluating available treatment for Alzheimer's and Parkinson's Diseases as well as smoking cessation programs for the elderly.

The Spiritual Healing Center and the Bay Area Jewish Healing Center (3330 Geary Boulevard)

IOA is in the process of developing a multi-faith Spiritual Healing Center modeled after the Bay Area's Jewish Healing Center. This center incorporates spiritual healing for comfort and solace when a senior faces illness or loss.

In the same location as the Spiritual Healing Center is the Bay Area Jewish Healing Center, dedicated to providing Jewish spiritual care to those living with illness, to those caring for the ill, and to the bereaved through direct service, education and training, information and referral. The Program rabbis focus on how Jewish spiritual resources can be used to promote spiritual healing and wholeness. There are monthly group meetings provided in San Francisco and Marin to provide the opportunity to join with other Jewish faith patrons who are seeking comfort, hope, or guidance regarding brokenness in their lives.

Community Living Fund
As of April 2007, the City and County of San Francisco had selected the Institute on Aging to administer its Community Living Fund. The goal of the Fund is to enable low-income elderly residents and those with disabilities to live independently as long as possible. Many of these clients will be discharged from Laguna Honda. Other clients would be candidates for admission to Laguna Honda. Case managers come from several community based organizations including Catholic Charities, Lighthouse for the Blind, Curry Senior Center, Conard House, and In-home Supportive Services. IOA's role is to receive city funds and pay partner agencies for their services and other providers for services purchased for individual clients. The program will run from April 2007 through June 2010.

Center for Elders and Youth in the Arts
Under the artistic direction of Jeff Chapline, professional artists, painters, writers, poets and actors engage participants at Assisted Living, Residential Housing, Adult Day Health and other older adult service facilities, in year-round visual and performing arts programming. Intergenerational and home projects are also available. Through creative expression, elders remain connected to the community and experience improved physical and emotional well-being.

Community and Professional Health Education Program
This program informs older adults and caregivers about pressing health issues. It provides up-to-date information so elders can make informed decisions about their health and well being. Each year several all-day programs are held to discuss topics such as memory loss and aging, understanding prescription drugs and senior safety. Because this program is essentially a health information resource, there are no utilization statistics provided for it in our projections.

IOA Governance and Leadership

Governance

IOA is structured as a nonprofit public benefit corporation exclusively for charitable and educational purposes under Section 501(c) (3) of the Internal Revenue Code of 1986, as amended. It is directed by a Board of Directors that is not less than seven (7) or more than forty (40) members. Currently there are 28 members of the Board and three honorary lifetime directors. Each of these directors serves a three-year term, which is staggered so that one-third of the directors will be appointed each year. No director serves more than three consecutive terms unless he/she is elected as a director for a fourth consecutive three-year term. In addition to the annual meeting, the Board holds at least three other regular meetings each year. In addition to the Executive Committee, which transacts all regular business of the corporation, there is a Nominating Committee and other standing committees as deemed necessary by the Board. The principal officers of the corporation consist of Chair, President/CEO, one or more Vice Chairs, a Secretary and a Treasurer.

Leadership

Following are brief descriptions of the backgrounds of individuals that currently serve on the 2007-2008 Institute on Aging Board of Directors.

Robert L. Sockolov, Chair
Chief Executive Officer, Rochester Big & Tall; Member, Board of Directors, United States Committee for Sports for Israel; Member, International Tennis Federation; Partner, San Francisco Giants, Board Member, CMRG on the NASDAQ Exchange.

Barbara Schraeger, Vice Chair
Commissioner, State of California Commission on Judicial Performance; Organizational Development Consultant; Third Party Facilitator/Mediator of labor-management problem solving committees; Former Director, School-Business Connection, San Francisco Chamber of Commerce; Former Faculty Member at University of San Francisco and at Golden Gate University.

Anthony G. Wagner, Vice Chair
Vice President, Office of Labor Management Partnership, Kaiser Foundation Health Plan; Former Executive Administrator, San Francisco Community Health Network; Delegate, American Hospital Association, Region IX Policy Board; Member, Board of Directors, California Association of Public Hospitals; Member, Board of Directors, Compensation Committee Chair and Member, Nominating Committee, Longs Drug Stores Corporation; Life Member, National Association for the Advancement of Colored People; Member, Board of Deacons and Executive Committee, Chairman Worship Committee, Third Baptist Church; Member, Consumer Advisory Committee CMRI; Past Chair, American Heart Association, California Affiliate; 1992 Recipient, San Francisco Chamber of Commerce Managerial Leadership Award.

Allen S. Feder, Treasurer
President, Allen S. Feder and Co., Inc.; Member, Board of Directors, Past President and Past Chair, Boys and Girls Club of San Francisco; Trustee, Endowment Trust, Boys and Girls Club; Past President, Rotary Club of San Francisco.

Cynthia Diana Whitehead, Secretary
Past Chief Information Officer, Pacific Bell/SBC Communications; Member, Advisory Board, Center for Elderly Suicide Prevention; Member, Board of Directors, Gold Rush Foundation; Member, Board of Directors, Salesian Boys & Girls Club; Past Member, Board of Directors, Bay Area United Way.

Margery D. Anson
Community Representative. Former Member of IOA Auxiliary Board; Former Secretary of Emanu-El Residence Club Board; Former Co-Chair, Women's Division of the Jewish Community Federation; Former Chair, Mount Zion Hospital Gift Shop. Former Board Member, Mount Zion Hospital Auxiliary and San Francisco Botanical Garden.

Meryl Brod, PhD
President, The Brod Group; Former Vice President, Quintiles Transnational; Founding Director, Center for Clinical and Aging Services Research, Institute on Aging and UCSF joint Research Center; Founding Director, Nerken Center for Geriatric Research, Jewish Institute for Geriatric Care, New York; Past Member, Board of Directors, American Society on Aging, Past Member, Board of Directors, Bread and Roses; Past Member, Board of Directors, Menorah Park.

Boone Callaway
Attorney. Partner, Callaway and Wolf. Volunteer, AIDS Legal Attorney Panel. Member Board of Directors, and Past Board President, Maitri, (AIDS Hospice and 24-Hour Care Facility).

Kenneth J. Colvin
President, Colvin Distributing Company; Member, Disaster Committee, American Red Cross; Board Member, Fromm Institute; President, Saints and Sinners; Past Member, Board Directors, Jewish Community Federation; Past Chair of Board, Institute on Aging.

Belva Davis
Broadcast Journalist. Host of KQED News program *This Week in Northern California.* Founding President, the Museum of the African Diaspora. Board Member, Blue shield of California Foundation; Trustee, Fine Arts Museums of San Francisco and The Glide Foundation; National Vice President of the American Federation of Television and Radio Artists; Member, Community Grants Committee, San Francisco Foundation.

Libby Denebeim
Ms. Denebeim is an Educator. Member, Board of Directors, San Francisco Adult DI Services Network, San Francisco Study Center/Community Graphics, the San Francisco Chapter of the National Council of Jewish Women, and the Public Affairs Committee of Jewish Family and Children's Services. Former elected member and President of San Francisco Board of Education. Former Chair of San Francisco Delinquency Prevention Commission; Former President, Hospice of San Francisco; Former President, Friends of Langley Porter, La Casa de las Madres, and the

San Francisco Boys Chorus. Named California Assembly District 12 Woman of the Year in 2003.

Irene Dietz
Real estate sales for twenty-seven years; Member, Board of Directors, Real Estate Board; Member, Various Real Estate Board Committees; Chair, Institute on Aging Board Auxiliary; Past President, St. Francis Wood Women's Auxiliary; Past President, Variety Club Women; Life Member, Hadassah.

Geraldine G. Earp
MSW, University of California at Berkeley; Founding Director and Former President, Senior Action Network; Past Vice Chair, OMI Neighbors in Action; Member, Board of Directors, Bethany Center Senior Housing and Jones United Methodist Church; Member, California Association of Homes and Services for the Aging; Life Member, NAACP; Extensive experience as Social Worker with San Francisco Department of Human Services, San Francisco Home Health, Laguna Honda Hospital and Mount Zion Hospital Home Care; Who's Who of American Women; Who's Who Women of the West.

Lawrence Z. Feigenbaum, MD
Founding Director, Institute on Aging; Clinical Professor of Medicine, Emeritus, and Former Associate Dean for Inter-institutional Programs, UCSF School of Medicine; Former Director of Professional Services and Medical Education and Former Director of Ambulatory Services, Mount Zion Hospital and Medical Center; Former Director, UCSF/Mount Zion Center on Aging.

Irwin J. Gibbs
President, Gibbs-McCormick, Inc.; Member, Dean's Scholarship Committee, University of California, Davis; Member, Advisory Board, San Francisco State University, Business School; Past President, Northern California Food Brokers Association and Recipient of Broker of the Year Award; Past Chair of Board, Better Business Bureau, San Mateo County; Past Chair of Board, Institute on Aging.

Anne W. Halsted
Former Vice President, Human Resources, United Leasing International, Inc.; Commissioner and Vice Chair, San Francisco Bay Conservation and Development Commission; Board Member and Past Chair, City Club of San Francisco; Board Member and Past President, San Francisco Planning and Urban Research Association; Board Member, San Francisco Maritime National Historical Park Association; Board member, Urban Resources Systems; Board Member, North Beach Citizens; Past Commissioner and President, Port of San Francisco; Recipient of *Silver Spur* Award for the year 2000 from San Francisco Planning and Urban Research Association; 1995 League of Women Voters Award, *Women Who Could Be President.*

Stanley Herzstein
Past President, Men's Division, Koracorp Industries; Past Chair, World Trade Center; Member, Board of Directors, Koret Foundation; Past President, Commission on Aging, City of San Francisco; Past Chair of Board, Institute on Aging.

Richard Kuchen
Private Client Relationship Manager, Wells Fargo Bank. Former Vice President, Marketing, Sierra Capital; Former Head Basketball Coach, Yale University; Former Head Basketball Coach, University of California, Berkeley; Former Assistant Basketball Coach, University of Notre Dame; Former Assistant Basketball Coach, University of Iowa; Member, Coaches Emeritus National Association of Basketball Coaches.

C. Seth Landefeld, MD
Professor and Chief, Division of Geriatrics, UCSF; Director, UCSF-Mount Zion Center on Aging; Fellow, American College of Physicians; Past President, Society of General Internal Medicine; Member, American Geriatrics Society, Gerontological Society of America, American Society for Clinical Investigation, American Federation for Clinical Research, and American Association for the Advancement of Science .

Joan Levison
Director, Health Mart Pharmacy Franchise, McKesson Corporation; Past Director of Communications and Market Research, Handylab; Past Director of Marketing, BenefitPoint; Past Vice President, Sales and Marketing, California Advantage; Past Director of Small Business Group, Health Net; Founding Executive Director, Association of Northern California Oncologists; Coauthor of two Books on Health Care Issues in the Senior Market; Past Chair, Institute on Aging Board of Directors.

Paul Resnick
Partner, AKJ Asset Management; Former Director of Administration, San Francisco Conservatory of Music; Current Board Chair, Lytton Gardens; Chair, Investment Committee and Former Board President, Jewish Community Center of San Francisco; Chair, Investment Committee, Northern Peninsula Jewish Campus; Former Board President, Jewish Family and Children's Services; Former Board Chair, San Francisco Art Institute; Former Board President, Zonta Services.

Donald L. Seitas
Mr. Seitas is retired, Manager Regulatory Compliance, Stauffer Chemical Company. Chair, Community Advisory Board, Support Services for Elders-Marin; Appointed Member, Marin County Elder Abuse Prevention Community Task Force; Former Vice President and Program Chair, Board of Directors, Mill Valley Historical Society.

Bing Shen
Supervisor, CTCI Corporation (engineering and construction firm in Taiwan); Chair, Board of Directors Audit Committee, CTCI Corporation; Member, Princeton University Schools Committee; Trustee, Chinese American International School (of San Francisco); Board Director, Friends of the San Francisco Public Library; Former President, CDIB & Partners Investment Holding Corporation; Former Executive Director, Morgan Stanley Group Inc.; Former Executive Director, TISCO Bank of Thailand; Former Board Director, KG Telecom; Former Member, Advisory Council, Department of East Asian Studies, Princeton University; Former Board Director, Taipei American School.

Victoria Stone
General Manager, The Sterling of San Francisco; Formerly Director of Development, Classic Residence by Hyatt. Founder and Principal, Stone Circle Design, an interior design firm specializing in development of innovative environments to support health and well being. Certified Interior Designer, State of California; MPH in Health Promotion and Wellness; Member, National Investment Center for Senior Housing and Care Industry, American Society of Interior Designers.

Neal A. Tandowsky
Senior Vice President, Private Banking Services, City National Bank; Chair, Bay Area Jewish Healing Center Advisory Board; Member, American Israel Political Affairs Committee (Former Board Member and Graduate of Young Leadership Program); Former Co-Campaign Chair for North Peninsula, Jewish Community Federation; Former Member, Corporate Giving Committee, California Pacific Medical Center Foundation; Graduate, Wexner Heritage Foundation Program.

Ruth Kasle
Retired from Syntax Corporation; Volunteer with the Stanford Health Library; Advisory Board Member; Older Adults Care Mangement.

Sandra D. Yuen, PhD
Consultant, Educational Evaluation and Research; Member, American Educational Research Association; Member and Past President, Stanford Asian/Pacific American Alumni Association; Member, Parent Advisory Board, The San Francisco Arts Education Project; Mentor, Stanford University Asian American.

Amy W. Zellerbach, JD
Attorney; MS, Social Work, MPH, Public Health, and JD; prior to JD worked at Albert Einstein College of Medicine/Montefiore Medical Center, New York City Health and Hospital Corporation and State of New York Office of Mental Health; Member, Bar Association of San Francisco; Member, Board of Trustees, Cal Performances; Past Chair, Institute on Aging Board of Directors.

Honorary Lifetime Directors

Warren Berl
Mr. Berl is Chair Emeritus, Sutro & Company; Member, Board of Directors, Northern California Chapter of the National Multiple Sclerosis Society; Past Chair of Board, Institute on Aging.

Adele K. Corvin
Chair, Board of Directors, Stulsaft Foundation; Honorary Lifetime Member, Board of Directors, Institute on Aging; Member, Board of Directors San Francisco Adult Day Services, Endowment Committee of Jewish Community Federation, and Fromm Institute.

Ann Eliaser
Ms. Eliaser is founder of Compass Associates, a professional consulting firm from which she

retired in 1989. Active in civic, cultural and political affairs and has served on innumerable city, state, national and international boards of directors. She is the current President of San Francisco Towers Residents' Council.

IOA Management Team and Its Structure

The experienced IOA management team is led by Dr. David Werdegar, M.D. who serves as the President and CEO of the organization. Dr. Werdegar has direct responsibility for the Development, Capital Campaign, and Research Activities of IOA, and along with Ken Donnelly, the Executive Vice President, Dr. Werdegar also helps to guide the major IOA programs previously described. Mr. Donnelly who also serves as the Vice President of Administration is in charge of the overall daily activities of IOA, and reporting to him are, John Sedlander, Chief Financial Officer, Tessa ten Tusscher, PhD., Vice President of Clinical Services, Kelly Hiramoto, MSW, the Vice President of Community Programs, and Cindy Kauffman – Vice President of Day Health Services.

Management

A brief biographical description of these key management team members follows.

David Werdegar, M.D.

In addition to being the President and CEO of IOA, Dr. David Wedegar also serves as Chair of the Kaiser Arbitration Oversight Board. From July 1991 to August 2000 he was Director of the Office of Statewide Health Planning and Development and from 1985 to 1990 he was the Director of Health in San Francisco. There he led the City's community-wide response to the AIDS epidemic developing a comprehensive program of prevention and early intervention. Dr. Werdegar is Professor Emeritus of the Department of Family and Community Medicine at UCSF and has pioneered interdisciplinary education and training in primary care. At UCSF he also served as the Professor and Chairman of the Department of Family and Community Medicine and twice served as an Associate Dean of the Medical School, first at the UCSF Medical Education Program in the Fresno-San Joaquin Valley area, and later when he was the Director of the University's Academic programs at San Francisco General Hospital. In his research Dr. Werdegar has focused on primary and community health, the organization of health services, care of the chronically ill, and numerous health policy issues. Dr. Werdegar earned an A.B. in Philosophy from Cornell University, an M.D. from New York Medical College, and an M.P.H. from the U. C. Berkeley School of Public Health.

Ken Donnelly

Ken Donnelly currently serves as the Executive Vice President of IOA and has been with the corporation since February of 1995. The departments that he has overall responsibility are Accounting, Human Resources, Information Technology and Facilities Management. In the 13 years he has been at IOA the organization has grown from $2.5 million in annual revenue to $28 million. From February 1995 to June 1999 he also served as the CFO and Controller at Mt. Zion Health Systems as well as the Goldman Institute on Aging. While there he was directly responsible for all financial-related information and activities of non-profit community health care funding and social service providers for the elderly. Earlier in his career, Mr. Donnelly served as the Director of Finance for Conard House, a non-profit mental health, homeless, and social services agency, and as the Assistant Controller for the Motion Picture and Television Fund. Mr. Donnelly holds a B.S. degree in Accounting from the University of Oregon.

John Sedlander

John Sedlander serves as the Chief Financial Officer of IOA. He is responsible for overall management and control of the Agency's financial resources. He monitors and analyzes the Agency's financial condition to secure financing to navigate uneven cash flows. As part of the senior management team, Mr. Sedlander provides information and analysis to the Board of Directors, showing what is required to keep the organization financially healthy and its future secure. Prior to joining IOA he was the Resource Development Director for the West Bay Housing Corporation where he installed a new accounting system to track financial results by property and by funding source. Among his other experience John was the Director of Operations for the Committee on the Shelterless in Sonoma where he managed a homeless services center for single adults and a community kitchen in Sonoma County, California. He also designed and implemented tracking and reporting systems to show clients' progress and cost per unit of service. He managed agency financial performance to within 1 percent of budgeted results. John earned a B.A. and M.B.A. from the University of Michigan.

Tessa ten Tusscher, Ph.D.

Tessa ten Tusscher, Ph.D., the Vice President of Clinical Services, oversees all the clinical services of IOA and is responsible for developing cohesive community-based services including the Managed Care SeniorHealth Centers, the MSSP/Linkages programs, the Geriatric Assessment Center, the SSE, the CESP, the OACM program, and the Spiritual Healing Center. Dr. Tusscher's functions include strategic planning, budget management, and recruitment of senior personnel. She is also the current President of Bay Area Psychological Testing Associates, a psychometric diagnostic company servicing lawyers, physician, educators, and researchers. From 1996 to 2005 Dr. Tusscher was in private practice providing individual psychotherapy, psychological testing, and neuro-psychological assessment services for older adults. Prior to this time, Dr. Tusscher served in a variety of clinical roles both as a therapist and an administrator. She has extensive teaching, publication, and research experience and has contributed to numerous seminars, conferences, and presentations in the field of gerontology. She has earned a B.A. in Politics from the University of Sheffield, in the U.K., a Ph.D. in Political Science from the University of Leeds in the U.K., and a Ph.D. in Clinical Psychology from Center for Psychological Studies in Berkeley, California.

Kelly Hiramoto, LCSW

Kelly Hiramoto, the Vice President for Community Care Management, Oversees program operations for publicly funded care management programs, acts as liaison with the Department of Aging and Adult Services on community care management issues, maintains fiscal and program compliance with a total budget of $6.5 million, and develops Requests for Proposals as indicated. Previous to this position at IOA she has served as the Clinical Supervisor for the Multipurpose Senior Services Program as well as the Director of Community Care Management. Prior to joining IOA Ms. Hiramoto served in a variety of positions, most recently as the Program Director/Supervisor for the Area Agency on Aging in Vallejo, CA and a Case Manager at the Jewish Family and Children's Services in San Francisco. She earned her B.A. in Social Welfare from the University of California at Berkeley and an M.S.W. from the Columbia School of Social Work.

Cindy Kauffman, MS, CRC

Cindy Kauffman, MS, CRC, the Vice President of Day Health Services, oversees all the day health programs of IOA. These include the Ruth Ann Rosenberg Adult Day Health Center, Alzheimer's Day Center, Irene Swindells Social Day Center, Fillmore SeniorHealth Center and Geary SeniorHealth Center. Ms. Kauffman's functions include strategic planning, budget management and recruitment of management personnel. Ms. Kauffman has been employed at IOA since 1998. Prior to her joining IOA, she was manager of the UCSF Bookstore from 1988 to 1998. She also holds an undergraduate Arts degree in Theatre and has worked as a stage manager with several theatre productions. She currently serves as an officer on the California Association of Adult Day Services.

Project Description

IOA is now embarking on a new level of development. Together with BRIDGE Housing Corporation, it is now combining its comprehensive health-related services with 150 Mediterranean-style units of affordable housing for seniors on the top four and a half floors of a new structure to be located at 3575 Geary Boulevard.

IOA and BRIDGE Housing will create synergies by combining independent senior housing and a senior service facility in one building. By bringing together knowledgeable staff and appropriate resources in one location, this new integrated concept for senior living will enrich the community at large as well as enable residents to more easily "age in place" and live more independently than they otherwise would have been able to do with existing senior living alternatives.

This project will consolidate four of IOA's leased facilities, currently located on Geary Boulevard in the Richmond district, and relocate them to this new building. This change will allow for greater ability to serve more clients. In the planned structure IOA intends to develop the first floor and approximately half of the second floor for its programs and administrative needs, and there will also be an underground parking facility. IOA has sold an "Air Rights" parcel to BRIDGE Housing, which will develop and construct a four and a half story residential development consisting of 150 planned units of affordable housing. Construction is tentatively scheduled for June 2008 and is to be completed by May 2010.

II. Service Area Definition

The service area of a project refers to the geographic area from which a service provider draws the majority of its clients. Defining a service area provides a geographic picture, or reference point, from which to describe the demographic, economic, competitive, and other characteristics of a target population. These parameters may affect the future demand for, and utilization of, a provider's services. In most cases a service area is defined through the use of patient or client origin statistics, interviews with management, natural boundaries, travel patterns, and legal definitions of a population served. The primary service area (PSA) for a provider generally refers to that area from which 70-75 percent of patients or clients of an organization are residing. The secondary service area (SSA) is that region from which another 15-20 percent of the clients served by an organization come. Together the PSA and SSA comprise a provider's TSA or total service area. This area does not include any clients who, for various reasons, reside outside of the defined service area.

It is significant to note that for this study the TSA or SA (Service Area) for IOA was defined principally on the basis of the Enrollment Area as set forth in Exhibit 3-A of the Provider Service Agreement between IOA and On Lok. A patient origin approach was not used.

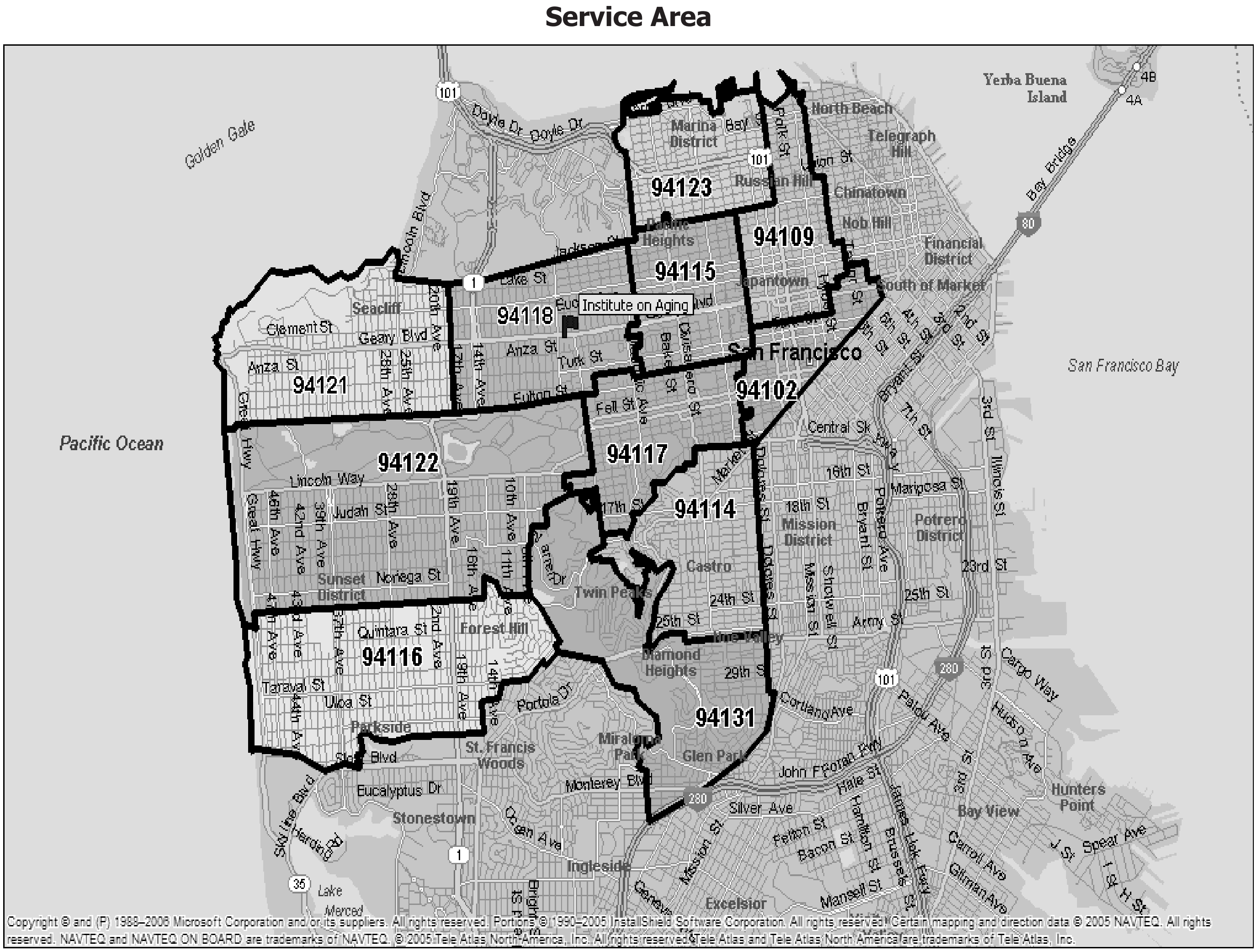
Because half of all of IOA's client services are provided to On Lok members, this SA definition is sound, especially because interviews with IOA management reveal that non-On Lok clients reside in the same geographic location as do On Lok members. With this explanation in mind, IOA SA used for this study is the immediate neighborhoods as defined by a two-mile radius from the Centers where covered services are provided. This area includes the following zip codes in western San Francisco:

IOA Service Area Zip Codes	Geographic Description
Zip Code 94123	Marina
Zip Code 94115	Western Addition
Zip Code 94117	Fillmore / Haight
Zip Code 94118	Inner Richmond
Zip Code 94121	Outer Richmond
Zip Code 94122	Sunset
Zip Code 94143	Sunset / UCSF*
Zip Code 94116	Parkside / Forest Hill
Zip Code 94131	Northwest of Clarendon Ave. only
Zip Code 94109	West of Van Ness only
Zip Code 94102	West of Van Ness only
Zip Code 94114	North of Market St. / 17th St. only

Source: Exhibit A-3 (Enrollment Area) Amendment and Restated Provider Service Agreement Between On Lok Senior Health Services and Institute on Aging. Note Zip Code 94143 is a Post office box and contains no population.

The service area map of this area showing all these zip codes is provided in Figure II-1. It is from this set of zip codes that the demographic information used for this report is derived.

Figure II-1
Institute on Aging Service Area Map



Source: HFS prepared SA map

III. Demographic and Income Trends

The foundation of projecting demand for a health care provider is a valid population projection for the SA population. These data are critical when combined with other socio-economic factors to develop utilization projections. IOA represents a target market with three clear distinguishing demographic characteristics. The members served by IOA represent an elderly population, a frail population, and one that is income qualified. The specific criteria used to measure each of these key variables and how they are used in HFS' demand model will be discussed in more detail in Section V (Demand Analysis for IOA). At this juncture, it is useful to provide a basic demographic profile of IOA service area population (SAP).

Historic and Projected SAP

The total population in IOA SA has been declining. In 2003 it was 411,972 and is currently estimated in 2007 to be 405,859, a drop of 1.48 percent. However, from its current level the total population is projected to grow slightly from 2007 to 2013[1] by about 0.19 percent. (Refer to Table III-1.) This pattern of historical total population decline is also reflected in the County of San Francisco, but in the projection period of 2007 to 2013 the County population is projected to grow by about 1.61 percent from 761,122 to 773,367 as shown in Table III-1.

However, the SAP for IOA is principally defined as residents 65 + years of age residing within the SA as defined previously. Within this relevant age cohort, the IOA SAP, as shown in Table III-1, has experienced modest historical growth of about 1.13 percent between 2003 and 2007, and between 2007 and 2013 it is projected to increase more rapidly by 9.86 percent from 59,614 to 65.494. Within the two age cohorts used to further describe this elderly population, those people 65-84 years old and those 85+ years, there is also growth, most notably in the older age cohort. From 2003 to the 2007, those SA residents aged 85 and older grew by 12.66 percent from 9,050 to 10,196. It is projected that the age 85+ population will also increase between 2007 and 2013 by about 18.21 percent, per Table III-1. This significant growth in the age 85+ cohort is also reflected in the population for the entire County of San Francisco.

Table III-1
Historic and Projected Service Area Population

Year	2003	2004	2005	2006	2007	2013	% Change 2003 - 2007	% Change 2007 - 2013
IOA SA Total Population	411,972	409,864	408,154	406,824	405,859	406,629	-1.48%	0.19%
IOA SA Pop. 65-84 Years Old	49,901	49,779	49,658	49,538	49,418	53,442	-0.97%	8.14%
IOA SA Pop. 85+ Years Old	9,050	9,324	9,606	9,897	10,196	12,052	12.66%	18.21%
IOA SA Pop. 65+ Years Old	58,951	59,103	59,264	59,434	59,614	65,494	1.13%	9.86%
San Francisco Co. Total Population	766,753	764,548	762,882	761,743	761,122	773,367	-0.73%	1.61%
San Francisco Co. Pop. 65-84 Years Old	91,852	91,843	91,834	91,827	91,820	100,473	-0.03%	9.42%
San Francisco Co. Pop. 85+ Years Old	15,697	16,220	16,760	17,319	17,896	21,407	14.01%	19.62%
San Francisco Co. Pop. 65+ Years Old	107,549	108,063	108,595	109,146	109,716	121,879	2.02%	11.09%

Source: 2007 Claritas Data

[1] The year 2013 is used as a final projection year as it represents the first "steady-state" year after planned construction of the project is completed in 2010.

The Frail-elderly Population

As previously discussed, the target market for IOA, in its SA, is the frail elderly. Whereas Table III-1 shows population statistics for the SA, we now focus our attention on the frail-elderly population. Table III-2 provides a historic and projected view of this essential population.

In order to define the frail-elderly population HFS uses the concept of Activities of Daily Living (ADL). ADLs refer to "… the basic tasks of everyday life, such as eating, bathing, dressing, toileting, and transferring. When people are unable to perform these activities, they need help in order to cope, either from other human beings or mechanical devices or both. Although persons of all ages may have problems performing the ADLs, prevalence rates are much higher for the elderly than for the non-elderly. Within the elderly population, ADL prevalence rates rise steeply with advancing age and are especially high for persons aged 85 and over."[2] This concept provides us with a functional means of measuring the degree to which a SAP requires the types of services offered by IOA.

The elderly population needing help with two or more ADLs is generally considered to be frail. It is estimated from research published by the National Center for Health Statistics that approximately 5.8 percent of those people 65-84 years old and 18.1 percent of those 85+ years old require assistance with two or more ADLs. Table III-2 shows the results of applying these statistics to IOA SAP. In 2003 the SA had 4,532 frail-elderly 65+ years old residents. By 2007 this number had risen to 4,712 (an increase of 4.0 percent), and by 2013 it is projected that there will be 5,281 frail-elderly people in IOA SA, a 12.1 percent increase over the 2007 statistic. Thus the rate of increase of the frail elderly in the SA from 2007-2013 is increasing more rapidly than from 2003-2007.

Table III-2
Historic and Projected IOA Service Area Population of Frail-elderly

Year	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Age 65 - 74	28,714	28,583	28,453	28,324	28,195	28,937	29,698	30,479	31,281	32,104	32,949
Age 75 - 84	21,187	21,196	21,205	21,214	21,223	21,100	20,977	20,855	20,734	20,613	20,493
Total 65-84	49,901	49,779	49,658	49,538	49,418	50,036	50,675	51,334	52,015	52,717	53,442
SA Percent 65-84 Needing Assistance With 2+ ADLs[1]	2,894	2,887	2,880	2,873	2,866	2,902	2,939	2,977	3,017	3,058	3,100
Age 85 and over	9,050	9,324	9,606	9,897	10,196	10,484	10,781	11,085	11,399	11,721	12,052
SA Percent 85+ Years Needing Assistance With 2+ ADLs[1]	1,638	1,688	1,739	1,791	1,845	1,898	1,951	2,006	2,063	2,122	2,181
SA Total Frail Elderly 65 + Years	4,532	4,575	4,619	4,664	4,712	4,800	4,890	4,984	5,080	5,179	5,281

Source: Claritas pop. Statistics and HFS calculations of Frail Elderly per NCHS data:

[1]5.8 % of 65-84 year olds and 18.1% of persons 85+ years are frail elderly (need assistance with 2+ ADLs) based on U.S. Dept. of HHS, CDC, National Center for Health Statistics, and the the 1994-1995 National Health Interview Survey on Disability (Phase 1).

Historic and Projected Income within the Service Area

In Section V of this study, the use of income related statistics specific to IOA will be incorporated into our model to produce projections of On-Lok members (needed as On Lok is a

---

[2] Rivlin, Alice M. and Joshua M. Wiener, with Raymond J. Hanley and Denise A. Spence. 1988. Caring for the Disabled Elderly: Who Will Pay? Washington, DC: The Brookings Institution

capitated population) and program-specific demand estimates for the various IOA programs that are offered.

Relevant to these calculations will be the income trends within the SA and those specific to the population 65+ years old as that is our principal market segment. As IOA primarily serves a lower income population (the Medicare and Medi-Cal eligible population), the data used here focus on household income levels below $15,000. Table III-3 shows that 13.7 percent of the total 2000 population had household incomes less than $15,000. Among those SA residents 65+ years, this percentage for 2000 was over twice that of the total population (27.7 percent). In 2007 the percentage of poor elderly declined to 22.8 percent, and by 2013, 19.3 percent of the 65+ population will have household incomes of less than $15,000. In short, the percentage of the elderly population that is low income is projected to decline through 2013, but almost one-fifth of this relevant age cohort will still be low income. This projected decline in the percentage of the poor elderly population is an indication that this age and income cohort is finding fewer and fewer housing opportunities and is being forced to migrate out of the City of San Francisco.

Table III-3
Historic and Projected Income Levels for IOA Service Area

Year	2000		2007		2013	
Age	Total SAP	65+ Pop.	Total SAP	65+ Pop.	Total SAP	65+ Pop.
Under $10,000	8.87%	15.92%	7.63%	13.68%	6.89%	11.85%
$10,000-$14,999	4.83%	11.79%	4.10%	9.15%	3.66%	7.49%
$15,000-$24,999	8.05%	13.58%	7.33%	14.04%	6.84%	13.10%
$25,000-$34,999	8.79%	11.37%	7.36%	10.46%	6.55%	10.23%
$35,000-$49,999	13.00%	12.32%	11.83%	12.68%	10.62%	13.28%
$50,000-$99,999	29.62%	20.40%	28.66%	21.59%	27.87%	21.96%
$100,000+	26.84%	14.61%	33.09%	18.41%	37.67%	22.21%
Total %	100.00%	100.00%	100.00%	100.00%	100%	100%

Source: 2007 Claritas Income by Age of Householder data.

Additional Demographic Characteristics of On Lok Members Served by IOA

As the dominant user of IOA's services, it is useful to examine the demographic characteristics of the On Lok capitated members serviced by IOA. Table III-4 through Table III-9 provide for a historical demographic picture of several characteristics of this key market.

In Table III-4, it is clear that about 90 percent of the On Lok membership is between the ages of 65 and 94 years. Not unexpectedly, the largest percentage of grow is in the 65-74 age cohort.

Table III-4
Age of Participants

	IOA Program Participants				
	2003	**2004**	**2005**	**2006**	**2007**
55 - 64	4%	4%	5%	6%	6%
65 - 74	7%	8%	9%	9%	12%
75 - 84	42%	42%	42%	42%	41%
85 - 94	41%	41%	39%	39%	37%
95 Plus	6%	5%	5%	4%	4%
Total	100%	100%	100%	100%	100%

Source: On Lok Senior Health Statistics

On Lok Members are predominately female, which is consistent with the normal life expectancy of men and women, but it is worth noting that the percentage of women is remaining stable (Refer to Table III-5).

Table III-5
Gender of Participants

	IOA Program Participants				
	2003	**2004**	**2005**	**2006**	**2007**
MALE	24%	23%	23%	23%	24%
FEMALE	76%	77%	77%	77%	76%

Source: On Lok Senior Health Statistics

The largest ethnic population is Asian or Pacific Islander followed by the Caucasian and African American populations. These data have their greatest relevance for planning purposes related to meeting the cultural needs of those served by IOA (Refer to Table III-6).

Table III-6
Race/Ethnicity of Participants

	IOA Program Participants				
	2003	**2004**	**2005**	**2006**	**2007**
Caucasian	29%	29%	29%	27%	28%
Black	22%	22%	22%	22%	22%
Hispanic	8%	7%	5%	5%	5%
Asian or Pacific Islander	40%	42%	44%	46%	45%
American Indian or Alaskan Native	0%	0%	0%	0%	0%
Other	1%	0%	0%	0%	0%

Source: On Lok Senior Health Statistics

Due to the predominant proportion of women compared to men, widowed On Lok members have a dominant representation in the marital status category. (Refer to Table III-7).

Table III-7
Marital Status of Particpants

	IOA Program Participants				
	2003	**2004**	**2005**	**2006**	**2007**
Married	16%	15%	17%	18%	17%
Widowed	46%	46%	45%	44%	46%
Divorced	16%	15%	14%	13%	14%
Separated	2%	3%	3%	3%	3%
Never Married	20%	21%	21%	22%	20%

Source: On Lok Senior Health Statistics

Table III-8 provides information on the living situation of On Lok members, and it is clear that the majority live with others, at home alone or in a congregate care facility. As expected, because of the goals of On Lok, the largest two decreases in this category (from 2003 to 2007) are for residents of nursing homes and congregate care facilities. These declines may be indicative of the trend that, according to HFS interviews, IOA is reaching out to a younger population challenged by mental health problems and strokes, and in doing so is reducing their dependence on nursing homes and congregate care facilities. This explanation for the decline in nursing home and congregate care occupancy is supported by the growth between 2003 and 2007 of the On Lok members who are 55-64 years old. (Refer to Table III-4.)

Table III-8
Living Situation of Participants

	IOA Program Participants				
	2003	**2004**	**2005**	**2006**	**2007**
Home Alone	17%	18%	22%	31%	28%
Home With Others	31%	35%	39%	34%	32%
Congregate Care Facility	32%	30%	28%	23%	25%
Nursing Home	19%	15%	10%	12%	15%
Foster Care (Group Home)	0%	0%	0%	0%	0%
Others	1%	2%	1%	0%	0%

Source: On Lok Senior Health Statistics

Finally, Table III-9 presents the monthly income of On-Lok members, and the modal income category (that category which represents the most frequent income range) is clearly those members making between $500 and $799 per month. These data are important for determining the income qualifications of the population served by IOA. As it will be seen in Section V, these data are used to calculate a weighted average yearly income per member and, when combined with average members per household, average household income can be determined. These statistics are then used in income qualifying the frail-elderly population.

Table III-9
Total Monthly Income (Participants Only)

	IOA Program Participants				
	2003	**2004**	**2005**	**2006**	**2007**
Less than $ 200	7%	7%	7%	10%	13%
$ 200 - 499.99	9%	7%	8%	7%	7%
$ 500 - 799.99	50%	52%	50%	48%	44%
$ 800 and higher	34%	34%	35%	35%	36%

Source: On Lok Senior Health Statistics

Summary

This section of the study summarizes the key demographic and income trends for IOA SAP. It is important to note that when studying this population, it is necessary to segment it in three key ways: by age, by frailty, and by income levels. These are the key demographic variables that will be used for the demand projections to follow. It has been shown here that whereas the total IOA SA population is projected to remain relatively stable, the target population for this study, the frail elderly within the SA, is expected to grow slightly through the projection period.

IV. Competitive Environment

Prior to projecting demand for On Lok members, served by IOA and IOA program activities for other clients served by IOA, it is necessary to examine the competitive environment within IOA Service Area. This information, along with interviews of key subject matter experts affecting this project, will be used to refine the demand for this IOA BRIDGE Housing Development.

From interviews and research HFS has identified other organizations, which may be considered to offer competitive qualities to the proposed IOA BRIDGE Housing Project. Before profiling these organizations it is useful to note the unique nature of this particular project in comparison with similar senior living communities. IOA is best compared to other senior service organizations that offer both senior services and a rental-housing component. While continuing care retirement communities (CCRCs) and assisted living communities (ALFs) offer some competitive elements to the proposed development, they are different in a number of ways. A CCRC emphasizes aging in place and usually involves an ownership option for its independent living component. Community members typically come from a much higher income bracket than those served by IOA. Furthermore, while some health services and social programs are available at a CCRC, they cannot be compared to the comprehensive range of services offered by IOA. In the case of an ALF, residents are frail, elderly and ambulatory (like those served by IOA), but an ALF offers meals served in a community dining room. IOA BRIDGE Housing model will offer rent subsidized independent apartments where residents will be responsible for their own meals. Again, the range of health care and case management services at the IOA BRIDGE Housing Project is more comprehensive than those generally provided in an ALF. Thus, when HFS examined the SA, we sought to identify those organizations that most closely paralleled the IOA BRIDGE Housing Project in terms of services and housing options.

Table IV-1 on the next page shows the eight major competitive facilities identified with this project by the subject matter experts we interviewed. In each case the type of housing units, rental information, and services offered are stated. The planned IOA BRIDGE Housing Project should be very competitive with these existing facilities. While the North and South of Market Adult Day Heath is located south east of IOA SA, they are included in this analysis as they are a key resource for seniors in the City of San Francisco, and they do offer housing at their locations.

HFS conducted interviews with representatives of these facilities and other senior resource centers to further assess the competitive environment. Perhaps the most consistent opinion from these competitors is the clear need for more affordable housing for low-income seniors and the overwhelming belief that the IOA BRIDGE Housing Project should have little difficulty in filling these units.

This opinion was clearly voiced by the Director of the Western Addition Neighborhood Resource Center. He stated that, there is a “desperate need” for low income housing for seniors in the Richmond and Western Addition areas, and all over the city for that matter. He further concurred that IOA will have no problem filling these units, and it is not unreasonable to project an absorption period of only three months. He further stated that it is “common practice” for building owners to create a “paper” change-of-ownership to avoid some rent controls; then evict all the old tenants in favor of new ones who will pay much higher rents. Thus, the area now attracts middle-to-high-income couples that pay market-rate rents. This practice also contributes to the low-income elderly being forced out of the City.

Table IV-1
Profile of Major IOA Competitors

Facility Name	Location	ADHC Services	No. of Units	Pricing	Services Available
1. Presidio Gate Apartments	2770 Lombard St.	No	55 total	HUD Low Income Def.	Senior Low Income Housing
			40 1-Bed, 15 studios	Max = $ 23,750	Case Management
				33% of Gross Income	On site counseling
				Avg income = $ 9K	Outsdourced ADHC
2. North/South of Market ADH	350 Golden Gate Ave.	Yes	No		PT, OT, Speech
					Psychiatric referrals
					Daily noon meal - commune dining
					Social work services
					RN on duty
					Case management
3. North/South of Market ADH	301 Ellis Street	Yes	90 total	Section 8 vouchers	PT, OT, Speech
"Presentation Adult Day Health"			All studios	Max income = SSI	Psychiatric referrals
			40 = Section 8	30% of Gross Income	Daily noon meal - commune dining
			50 = Frail seniors	Avg = $ 356/mo	Social work services
					RN on duty
					Case management
4. North/South of Market ADH	930 4th Street	Yes	139 units	Section 8 vouchers	PT, OT, Speech
Mission Creek			All studios	Max income = SSI	Psychiatric referrals
			88 = Section 8	30% of Gross Income	Daily noon meal - commune dining
			51 = Frail seniors	Avg = $ 356/mo	Social work services
					RN on duty
5. Madonna Senior Residence	350 Golden Gate Ave.	No	51 total	Max income = SSI	Services provided by North/South
St. Anthony Foundation			All studios	30% of Gross Income	on 1st Floor
				Allowances for utilities,	
				medical bills	
6. Kimochi Adult Day Care	1531 Sutter Street	Yes	19 total	$ 2600 - 3750/mo	Daily noon meal - commune dining
			B & C rooms		Psychiatric referrals
			Single & Shared		Social work services
			Licensed RCFE		Exercise classes
					Fee = $ 7 to 30 per visit
7. Curry Senior Center	315 Turk Street	Yes	13 total	Section 8 vouchers	333 Turk is a primary care clinic
			All studios		Case management
8. Jewish Family & Children's Services	2150 Post Street	Yes	Rhoda Goldman Plaza	1-BR $3,820 - $4,410	Seniors At Home program does everything
			112 ALF units	2-BR $4,510 - $7,820	Fees charged for all home care services
			1-Bed and 2-Bed apts		
			Licensed RCFE		

Source: HFS competitive facility interviews.

Competitive Facility Interviews

The following is a summary of the competitive facility interviews.

Presidio Gate Apartments

The Executive Director of the Presidio Gate Apartments stated that they had recently opened up their waiting list, advertising only at senior centers, not in the newspapers. The result was over 700 seniors showed up to apply for 100 spots on the waiting list. It was further stated that all senior housing projects have waiting lists, and that these waiting lists remain closed due to no availability. The only exception in the City is in the Tenderloin, which is a troubled area with transient problems. That is the only area in the entire city that might have availability. When asked about the absorption rate for this new project, this competitor indicated that IOA will fill its new facility in as little as three months when opened, especially because of the rent subsidies which will be available.

North and South Adult Day Health
The Executive Director of North and South Adult Day Health was interviewed. This organization has been in existence for about 22 years. They have three locations: 350 Golden Gate Ave., 55 Mabini Street, and 301 Ellis Street (across from Glide Memorial Church). They are one of 16 Adult Day Health Care (ADHC) agencies in San Francisco, 13 non-profits and 3 for-profits. Their objective is to keep people independent as long as possible. They handle adults over the age of 18, and frequently handle younger people who have had a debilitating injury that requires therapy. Their median age is low 60's, and thus they serve a younger market than does IOA. All three locations offer similar services and have similar staffing: OT, PT, Speech therapy with RN and LVN staffing during program hours. They have a centralized intake person who arranges an interview in the home of the person, and then an individualized plan of care is developed.

The Ellis Street location offers low-income senior housing above two floors of ADHC. The facility opened about five years ago, it filled in less than one year and has a waiting list.

The Golden Gate Avenue location shares the same building with St. Anthony's Madonna Senior Residence, which is low-income housing for senior women. That location directs much of the ADHC services to those senior women. The agency has a van, which collects seniors from Chinatown, through the Market Street corridor and south towards the Mission District for drop-off at their locations.

The North and South of Market Adult Day Health have opened a new community, called Mission Creek (Refer to Table IV-1). Developed jointly with Mercy Housing, this senior living community has 139 studio apartments; 88 are reserved for Section 8 vouchers and 51 are for frail seniors. The project is located at 930 4th Street in China Basin and is surrounded by new condominium developments. The building is seven floors with ADHC services on the first two floors.

Income qualifications for the frail-elderly apartments will be the current SSI rate. Rent will equal one-third of SSI, or roughly $356 per month.

The City has asked Mission Creek to offer ADHC services designed with mental health issues and dual-diagnosis residents in mind. Therefore, case management and mental health services are paramount to this new community.

They used the San Francisco Housing Authority waiting list for the 88 Section 8 slots and advertised to the frail-elderly. Based on past experience with Presentations, the Project Director we interviewed anticipated the slots to fill immediately, and as of February of 2008, they were completely full. When they opened Presentations (Refer to Table IV-1), they had 2,000 applications for 90 apartments.

All three of their locations are operating at maximum occupancy, and the Executive Director further believes that IOA will have "no problem" filling their housing units when they open and the needs of baby boomers caring for aging parents create increasing demand for these services.

Madonna Senior Residence

St. Anthony's Foundation owns the building in which the North and South of Market ADH leases the ground floor for senior services. St. Anthony's offices are located at 121 Golden Gate Avenue. The manager interviewed said they have an informal relationship with North and South of Market ADH that permits her to assist her residents as they age in place. She provides case management services for her residents, and uses the North and South ADH services downstairs. Her residents are fairly independent; she calls it "supported living". Not licensed as a residential care facility for the elderly (RCFE), so they don't provide certain services, but they will "manage" some of their residents to keep them as independent as possible. Residents must "ambulate", and range in age from 60 to 95 years old. St. Anthony's is privately funded, takes no Federal or State/City funds.

The facility has 51 units on the top three floors of a five-story building. The 2nd floor includes offices, an activity room and a chapel. All apartments are studios. The facility opened in 2000. Formerly, Madonna House was located for over 50 years on Pine Street, but had seismic issues, so they rebuilt at the present location. Their residents are income qualified and the maximum income is the current SSI rate. Rents are 30 percent of SSI, minus allowances for utilities. Allowances are made if their medical expenses exceed a certain percentage of income.

The manager indicated that IOA will have little difficulty filling their new facility. When residents were moved into this location in 2000, there were 43 seniors for 51 units and the balance of units were filled in two weeks. They recently closed off their waiting list, which is three years long.

St. Anthony's is currently under construction to build 17 units for low-income seniors at their corporate address (121 Golden Gate Ave.) which will also expand their offices. There will be an undetermined number of respite beds for the homeless as well.

Kimochi Inc.

Located in Japantown on Sutter, Kimochi was originally designed to care for the elderly Japanese population of the area. They draw their clientele from Japantown, North Beach, parts of Chinatown and the Western Addition. This is an RCFE that can accommodate 19 residents needing "supervised non-medical care" 24 hours per day. They charge $2,600 – $3,750 for shared rooms and have five SSI beds.

Kimochi has a senior center at 1840 Sutter and an RCFE at 1531 Sutter. Kimochi offers Adult Social Daycare programs, a Congregate Nutrition program at the senior center (three meals daily), in-home meal delivery, and an RCFE. The Senior Center is open Monday-Friday eight hours with programs from 10AM to 3PM.

The Program Coordinator interviewed stated that IOA is close to them, and they are aware of the planned construction at the Coronet Theatre site. He says it is a welcome addition to the area, given the scarcity of senior housing. Their Senior Center routinely runs at building capacity with senior attendance. Because of proximity to IOA, they compete to some degree, but Kimochi continues to focus on the ethnic origins of Japantown residents.

Curry Senior Services
Located at 315 and 333 Turk Street in the Tenderloin District, Curry was established in 1972 as "North of Market Senior Services". Now, it is partially owned by the San Francisco Department of Public Health. Because of their location, they are not a direct competitor to the IOA BRIDGE Housing Project but do offer some competitive services. They offer ADHC services, including case management, meal service (breakfast and lunch), transportation, mental health counseling, and also have a primary care drop-in clinic.

The 315 Turk Street address was acquired in 1999 and opened in 2000. It has the ADHC services on the first floor, staff offices in the basement and 13 studio apartments on the two upper floors. They are classified as Section 8 housing for homeless seniors.

Rents are based on HUD requirements, but all residents max out at their SSI subsidy. Rent is priced at 30 percent of gross income. With only 13 units, they are always at full capacity with a waiting list.

Jewish Family and Children's Services (JFCS) (Seniors at Home Program)
The JFCS is a very large agency with over 40 programs serving residents in San Francisco, Marin and Sonoma Counties. They served over 45,000 people last year, including over 9,000 seniors. The Coordinator for Home Care Services of the Seniors at Home Program was interviewed.

The Seniors At Home program is designed to provide in-home care. It includes the development of an individualized plan of care for frail seniors. The program has been very successful and recently partnered with Health Net California for identifying frail seniors and using the JFCS workers to assess and provide services. They receive referrals from many San Francisco hospital discharge planners.

They are well aware of IOA and their plans and think that the project is a much needed addition to senior services in the City. Although the two agencies compete in certain respects in Adult Day Care, the reality is that there is a severe shortage of affordable senior housing in the City and it is recognized that senior services of all types must accompany the housing.

JFCS operates an RCFE (Rhoda Goldman Plaza) that offers additional senior services as needed by residents. Rhoda Goldman Plaza is located on Post Street in the Western Addition and across the street from Mount Zion Medical Center.

Affordable Senior Housing Units Currently Under Development

In addition to the profile of competitive facilities previously presented, Table IV-2 provides an overview of the affordable senior housing projects in San Francisco currently under development as of February of 2008. There are three categories of development listed: those projects currently renting up, those projects currently under construction, and those, like IOA BRIDGE Housing Project, that are in the pre-construction phase of development.

Table IV-2
Affordable San Francisco Senior Housing Units Currently Under Development

	Project	Address	Sponsor	Total Units	
Currently Renting Up					
	Howard St. Senior	328 Tehema St.	TODCO Development Corp.	85	
	International Hotel	838-848 Kearny St.	Chinatown CDC	104	
	Mission Creek Seniors	201 Berry St.	Mercy Housing California	139	
	Valencia Gardens	340-370 Valencia St.	Mission Housing Dev. Corp. / SFHA	260	
	Haight St. Senior Housing	1250 Haight St.	Citizens Housing Corp.	40	
	Parkview Terrace		AF Evans/Chinatown Com. Dev. Corp.	101	
Sub total				**729**	
Currently Under Construction					**Estimated Completion Date**
	Providence Senior Housing	4601-4603 Third St.	Providence Church	50	Mar-08
	Polk and Geary Senior Housing	990 Polk St.	Citizens Housing Corp. & TNDC	110	Aug-08
	St. Anthony's Senior Housing	121 Golden Gate Ave.	St. Anthony Foundation	17	
Sub total				**177**	
In Preconstruction Planning					
	IOA Bridge Senior Housing	3575 Geary	Bridge Housing	150	Aug-08
	Broderick Senior Housing	850 Broderick	DHS	46	Aug-08
	Armstrong Place Senior Housing	5600 Third Street	Bridge Housing	114	2008-2009
	9th & Jessie Senior		Mercy Housing California	107	Apr-09
	The Mary Helen Rogers Senior Community	Frankling Street	Mission Housing Dev. Corp.	100	2009
	Rosa Parks Senior Apartments	1251 Turk Street	Citizen Housing Corp.	122	2008-2009
Sub total				**639**	
Grand Total				**1545**	

Summary of Competitive Environment

This section has profiled the major SA competitive senior service and housing organizations that most closely offer services to those of the IOA BRIDGE Housing Project. While these organizations offer the same services to their clients as does IOA, there was little indication from the HFS interviews that there is an oversupply of social and health services provided to the frail-elderly target market in this area. Moreover, the consensus opinion is that the new housing being offered by the IOA BRIDGE Housing Project is very much in demand. It should be noted that the scope of the HFS study is limited to projecting On Lok membership and the demand for IOA services resulting from this new construction. It does not entail demand projections for the housing component of this development, which is the responsibility of BRIDGE Housing. Nevertheless, as the housing component is such a key feature of this development, when interviewees provided relevant information related to this aspect of the project, this information was noted.

V. Service Area Demand and IOA Demand Analysis

Now that the Service Area has been defined and profiled with respect to its demographic characteristics and the competitive environment discussed, we turn our attention to projecting the demand that is likely to result for this project. These projections are the cornerstone of the financial feasibility analysis.

However, prior to discussing the approaches used to project SA demand and the demand for services provided by IOA, it is essential to examine the perceptions of the subject matter experts related to this project. This process is done through interviews, which allow us to determine where there is consensus on key matters affecting this project and where there are disagreements. Interviews also allow us to identify key elements that may significantly impact the models used for our demand analysis, either in the broader Service Area or for the particular services which will be offered at the new IOA/BRIDGE development under consideration.

Summary of Interview Findings

For this project, a total of 14 interviews were completed with both the management and staff of IOA (seven interviews), representatives of BRIDGE Housing (two interviews), the management of On Lok Senior Health (three interviews), and senior service agencies operating in the SA (two interviews).

In addition to these interviews, as discussed in Section IV, we also conducted interviews with potential competitors to this project both to profile the competition, as well as to assess any competitive challenges which they may present to the project.

Reputation and Perceptions of IOA

In general, IOA is viewed very positively across the range of organizations interviewed by HFS. IOA's role in providing a comprehensive range of services to the elderly is well known, and their professional staff (and the care management they provide for the low-income frail-elderly population) is seen as one of their distinguishing characteristics. They are as one respondent put it, "highly regarded in their niche". They are also known for their support services for the Elderly (SSE) and their fiduciary support services. While there is a clear interdependency between IOA and On Lok SeniorHealth, the two organizations are separately identified. IOA staff is quick to point out that On Lok is a health plan and while half of IOA's revenues come from On Lok, the other half is from clients who are not On Lok members. Some of the staff mentioned that there might be some confusion on the part of residents of the city because they see IOA busses, which identify both IOA and On Lok.

On Lok views IOA as a needed partner to fulfill their mission of keeping seniors at home for as long as possible and out of skilled nursing facilities. IOA has two On Lok sites, one on Filmore in the Western Addition, serving a large African American population, and one on Geary, serving a predominantly Chinese population. One respondent noted that when the relationship began, On Lok teamed up with IOA because they wanted to expand services within the Western Addition of San Francisco, and they were looking for a partner with an experienced professional staff and demonstrated leadership in the field of geriatrics. They did not feel comfortable reaching out beyond the Chinese population and came to IOA to accomplish this expansion. When their relationship began in 1996, there was some confusion over the roles each organization would play, but now their relationship is more clearly defined. On Lok has their physicians working at two IOA centers, and On Lok would prefer that IOA take more of the financial risk than they are at present. One On Lok interview respondent noted that, demographically, the challenge facing both organizations is that the City's residents are increasing in wealth. HFS' analysis, based on Claritas data, substantiated this observation. HFS found that the percentage of low-income frail elderly in the SA is declining, and thus growth for this market segment will be a challenge.

Those interviewed from BRIDGE Housing also shared a high opinion of IOA and have a positive outlook for this project. BRIDGE is an experienced developer of affordable housing throughout the nine-county Bay Area region, and entered into this project as a result of an RFP process to become the master-developer partner.

Those interviewed from senior service agencies were very familiar with the IOA BRIDGE Housing Project and were quite enthusiastic about it. They too emphasized the high regard in which both IOA and BRIDGE are held for their complementary strengths. They are seen as effective partners for this project because of the strong leadership of both organizations and the developed IOA management infrastructure.

Impact on IOA Utilization Resulting from this Development

The PACE market segment is seen as key to the future of IOA, and this project combining housing with senior services is generally seen as having great potential to fuel IOA's growth. As one On Lok interviewee put it, "the project is an excellent idea. Senior housing is really needed and it's helpful to have both housing and senior services in the same place. This way we don't have to send people all over the City". These comments are insightful as On Lok currently has experience with the synergy created between housing and services. (In 2007, 157 of the current 1,000 PACE members, including a few IOA members, live in On-Lok housing.) A number of participants noted that this new and prominent facility should result in a positive impact on the growth of the utilization of services and the growth of PACE membership. IOA senior management estimates there should be at least a 10 percent increase in PACE membership when the structure is complete in 2010.

From an operational standpoint, IOA management noted that bringing programs together in one building will increase efficiency and cohesiveness. Furthermore, this development will allow for new opportunities for IOA. As noted by one IOA senior manager, the new building with more space will be conducive to hosting conferences and offering new programs promoting health (e.g. Tai Chi) rather than simply emphasizing pathologies.

Representatives of senior service agencies interviewed also reinforced the positive impact this project should have on IOA. One such executive stated that the increased visibility of an attractive new facility should positively affect both IOA utilization and its donor base. It was also pointed out that since Laguna Honda Hospital is proceeding with plans to reduce its SNF beds, IOA should experience increased demand.

IOA Strengths, Critical Success Factors and Risk Factors

Consistently throughout these interviews, respondents stressed the expertise of IOA staff and the range of services offered. Another common theme articulated by both IOA respondents and others outside the organization is IOA's ability and willingness to try new approaches to senior health services. IOA is seen as taking on challenges, which are avoided by other organizations. The staff is perceived as entrepreneurial and imaginative and will not eliminate a program at the first sign of operational or financial difficulties. They scrutinize new opportunities very carefully now, whereas in the past this had not been the case. Several interviewees stated this increased fiduciary effort has been the result of leadership provided by Dr. Werdegar, the CEO of IOA.

The most commonly cited critical success factor or risk to this project is the ability to raise funds for debt service and the capital funds needed for the building campaign. While the capital campaign has gone well in the opinion of several interviewees, planning has taken longer than expected, which results in donors delaying their commitments. Mitigating this financial burden is the fact that when IOA moves into the new building, consolidating services into one building, there will be at least $968,000 in lease savings because of the relocation of programs into the new building at 3575 Geary Boulevard. For example, the programs at 3626 Geary Boulevard (Linkages and the MSSP) are scheduled to move to the new building. IOA also intends to bring the On Lok PACE programs to the new site.

Another critical success factor is for IOA to increase its marketing abilities. A weakness in the past has been the lack of a consistent marketing strategy for IOA according to the staff. While BRIDGE Housing will be responsible for marketing the housing component of this project, the programmatic marketing will be an IOA responsibility, and a common observation is that this is an area where IOA needs to improve, especially when construction is underway. One IOA subject matter expert stated that "we never have problems in the delivery of services. We are the 'gold standard,' and we should have waiting lists. We just need to do a better job of promoting our range of services." One development to positively meet this need is the fact that IOA is developing a new Geriatric Assessment Center in the new building and services provided there would be eligible for Medicare reimbursement. This new Assessment Center, focusing on memory impairment and behavioral problems, should in the words of one senior executive at IOA "provide a built-in source of marketing for us. We'll have a new referral mechanism". IOA will be able to advertise to the community at large, resulting in a further positive impact on utilization.

IOA believes that education is vital to the understanding of key issues affecting older people. Through "Discovering Secrets of the Aging Mind", a bi-monthly series of programs, IOA is able to help professionals understand and tackle issues such as organic brain disease and mental health issues. In addition, they are able to offer Continuing Education Credits in a variety of topics to licensed professionals.

One issue that was pointed out by both IOA interviewees and those from other senior service organizations is that there were a number of political hurdles that the project has faced. While this issue was a concern at the start of the project, necessary approvals from the Board of Supervisors and the City Planning Commission were received in April 2006 and May 2006, respectively. Furthermore, while there were some planning issues raised by neighbors, these concerns were settled in February of 2007.

Another issue of concern offered by one of the interviewed BRIDGE representatives is that IOA really needs to carefully think through the functional and space planning issues for the new building. They need to make sure they are making the most efficient use of the new space to meet programmatic needs.

Competition and Outlook for the Future

As discussed in Section IV, the most frequently sited competition faced by IOA comes from the Jewish Family and Children's Services, the North and South of Market Adult Day Health Care, the Area Agency on Aging, and Catholic Charities. What was noted across all expert interviews is that the relationships that IOA has with these organizations are cooperative and not adversarial. The only source of friction that was identified revolves around the fact that both IOA and Jewish Family and Children's services approach the same funding sources.

While it is the case that some of IOA's competitors offer housing as well, as noted in Section IV, the demand for affordable housing for low-income elderly is very strong. When asked what the greatest needs of seniors are in the City of San Francisco, interviewees overwhelmingly cited the need for affordable housing. As a key official at BRIDGE noted, "there is very little development on the western side of San Francisco and … with rents as low as $350 per month, the project cannot lose". This project is seen as differentiated from other senior living communities because of the synergy between housing and services. The project offers distinct differences from other models of senior living, such as assisted living facility or continuing care retirement communities.

Service Area Demand Analysis

Because of the unique nature of this project, SA demand is characterized by first projecting the frail, elderly, and income qualified population within the SA. It is from this population that IOA draws its market, both the capitated On-Lok PACE membership, and IOA clients other than the On-Lok membership who use the full range of IOA services.

The first step in projecting the target market population is to project the elderly population, here defined as those Service Area residents 65+ years old. Table V-1 shows the historical population from Claritas of the age 65-84 and 85+ populations. These are the key age cohorts used in the HFS calculations. As described in Section III of this Report, the frail elderly are considered to be that portion of the elderly population that requires assistance with two or more ADLs. Based on research done by the National Center for Health Statistics and the National Health Interview Survey, 5.8 percent of people aged 65-84 and 18.1 percent of those people age 85+ meet this criterion. These percentages are respectively applied to the appropriate age cohorts shown in Table V-1 to estimate the historical frail-elderly population in the SA. Thus, HFS estimates that in 2003 there were 4,532 total frail-elderly aged 65 plus years, and by 2007 this number increased to a population of 4,712 frail elderly, an increase of about 4.0 percent or just less than one percent per year.

Income qualification is based on a weighted average of income data provided by IOA for On Lok members. Per IOA management the income levels of On Lok members are estimated to reflect the non-IOA clients as well. This data is converted to household income by calculating average household size for households headed by persons 65+ years and multiplying this factor by the average monthly income of the frail-elderly IOA population. This calculation resulted in average household income of $12,468 for 2000 and $12,127 for 2007. The percentage of the 65 plus years-old population which is income qualified is estimated for 2000 and 2007 using Claritas data (Age by Income) and combined with the calculated household income statistics for the Service Area population. Thus, per Table V-1, in 2003, 19.88 percent of households headed by those people 65 plus years old had incomes equal to or less than the average income of the IOA SA population. The comparable statistic for 2007 is 17.58 percent. It is important to note that that this decline in the percentage of frail elderly who are income qualified is consistent with information gleaned from interviews done for this study. What this finding suggests is that the elderly who have higher household incomes are replacing the percentage of elderly in the SA who have low household incomes. The number of frail elderly who are income qualified for 2003-2007 is calculated using a CAGR (compound annual growth rate) approach, and this data is then used to estimate the percentages of the income-qualified population for these intervening years. These percentages are applied to the SA total frail-elderly population to estimate the frail-elderly population that is also income qualified.

Table V-1
Historical Frail-elderly Income Qualified IOA Service Area Population

SA Population	**2003**	**2004**	**2005**	**2006**	**2007**
Age 65 - 74	28,714	28,583	28,453	28,324	28,195
Age 75 - 84	21,187	21,196	21,205	21,214	21,223
Total 65-84	49,901	49,779	49,658	49,538	49,418
SA 65-84 Needing Assistance With 2+ ADLs[1]	2,894	2,887	2,880	2,873	2,866
Age 85 and over	9,050	9,324	9,606	9,897	10,196
SA 85+ Years Needing Assistance With 2+ ADLs[1]	1,638	1,688	1,739	1,791	1,845
SA Total Frail Elderly 65 + Years	4,532	4,575	4,619	4,664	4,712
% of 65+ yrs Households that are Income Qualified	19.88%	19.28%	18.70%	18.13%	17.58%
SA Total Frail Elderly 65 + Years who are Income Qualified	901	882	864	846	828

[1]5.8 % of 65-84 year olds and 18.1% of persons 85+ years are frail elderly (need assistance with 2+ ADLs) based on U.S. Dept. of HHS, CDC, National Center for Health Statistics and the 1994-1995 National Health Interview Survey on Disability (Phase 1)

Source: Claritas and ADL calculations based on NCHS Information cited above. Income qualification data provided by IOA and HFS calculations

Table V-2 shows the projections for the frail-elderly income qualified IOA SA population. These population projections for the elderly are based on the CAGR between the 2008 and 2013 population statistics as published by Claritas. The projected frail-elderly population uses the same methodology previously described above for this historical data. Finally, the projected SA total frail-elderly population who are 65 years old or older and income qualified are calculated by applying the 2007 percentage of SA income qualified households (17.58 percent) to the total frail-elderly population for each of the projection years as shown in Table V-2. It can be seen from these calculations that the SA total income-qualified frail elderly 65 years old and above are projected to increase by about 9.9 percent from 844 in 2008 to 928 in 2013, or about two percent per year over this projection period. The reason for this slight increase, given the historical decline, is that the SA market projections assume that the decline in the proportion of the frail-elderly income qualified population will stabilize and not continue throughout the projection period. If the decline in the proportion of elderly income qualified households had continued, then the projections for the total frail elderly who are income qualified would have declined as well, and use rates used to project IOA program activities would have had to increase in order to maintain historical program volume trends. Given that there is no substantiation for increasing use rates, it was decided to stabilize the percentage of elderly households that are income qualified.

Table V-2
Projected Frail-elderly Income Qualified IOA Service Area Population

SA Population	2008	2009	2010	2011	2012	2013
Age 65 - 74	28,937	29,698	30,479	31,281	32,104	32,949
Age 75 - 84	21,100	20,977	20,855	20,734	20,613	20,493
Total 65-84	50,036	50,675	51,334	52,015	52,717	53,442
SA 65-84 Needing Assistance With 2+ ADLs[1]	2,902	2,939	2,977	3,017	3,058	3,100
Age 85 and over	10,484	10,781	11,085	11,399	11,721	12,052
SA 85+ Years Needing Assistance With 2+ ADLs[1]	1,898	1,951	2,006	2,063	2,122	2,181
SA Total Frail Elderly 65 + Years	4,800	4,890	4,984	5,080	5,179	5,281
% of 65+ yrs Households that are Income Qualified	17.58%	17.58%	17.58%	17.58%	17.58%	17.58%
SA Total Frail Elderly 65 + Years who are Income Qualified	844	860	876	893	910	928

[1] 5.8 % of 65-84 year olds and 18.1% of persons 85+ years are frail elderly (need assistance with 2+ ADLs) based on U.S. Dept. of HHS, CDC, National Center for Health Statistics, and the 1994-1995 National Health Interview Survey on Disability (Phase 1)

Source: Claritas and ADL calculations based on NCHS Information cited above. Income-qualification based data provided by IOA with HFS calculations

Historical and Projected On-Lok Membership for IOA

As the On-Lok members who use IOA services dominate a large proportion of IOA's operations, it is necessary to examine this specific market segment. Using these historical and projected markets (i.e. the frail, elderly and income qualified populations) within the SA that are shown in Tables V-1 and V-2, we now turn our attention to calculating that portion of these markets that will be the On-Lok members at IOA. This analysis is completed using the market share approach shown in Table V-3. The historical and projected market shares are estimated using membership data provided by IOA and the SA total frail elderly who are income qualified as shown in Tables V-1 and V-2. As shown in table V-3, these calculations result in IOA historical market shares of the frail-elderly income qualified market in the SA that are increasing from 21.5 percent in 2003 to 28.7 percent in 2007. The market share projections for 2008 through 2010 are calculated as shown in Table V-3, (ranging from 27.4 to 26.7) but in 2011, when the IOA BRIDGE Housing Project is completed, market share is assumed to increase to 30.6 percent. This projected change results from interviews with IOA management that suggest that when the new development is completed, On-Lok membership will increase by approximately 50 members who will occupy approximately 35 percent of the Bridge units. IOA and Bridge management has had discussions with the San Francisco Mayor's office which has verbally committed to reserving 35 percent of the units for PACE members. (This stipulation will be included in the covenants imposed on BRIDGE Housing). Thus, the attractive rental rates for On Lok members are assumed to be the crux of this increase in On Lok members who will seek out this new housing. This result further assumes that On Lok will increase their marketing efforts on behalf of the IOA BRIDGE Housing Project. It is assumed that it will take approximately six months to fill up the units for the applicable PACE members. Therefore, in 2011, membership will rise to only 274 due to the ramp-up period, in 2012 membership will rise to 286 capturing all 50 new PACE members for the entire year and by 2013 members are projected to increase to 288. In summary Table V-3 shows the projected number of On Lok members served by IOA resulting from applying these market shares to the SA total frail-elderly 65 plus income qualified population. Thus, from the present number of 238 On Lok members served in 2007, this number is projected to rise to 288 by the end of the projection period in 2013 based on the above discussion.

Table V-3
Historical and Projected On-Lok Membership for IOA

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
SA Total Frail Elderly 65 + Years who are Income Qualified	901	882	864	846	828	844	860	876	893	910	928
Market Penetration Percent	21.5%	25.4%	26.9%	28.0%	28.7%	27.4%	27.1%	26.7%	30.6%	31.4%	31.0%
On-Lok Members PMPM	194	224	233	233	238	232	233	234	274	286	288

Source: HFS calculated market share projections and IOA provided membership data on On Lok membership

Historical and Projected IOA program service projections

Table V-4 shows the historic program volumes for IOA. Utilization rates have been calculated for these statistics in order to examine any trends used for projections. These utilization rates are calculated on the basis of the SA total of frail-elderly income qualified population. It may be observed that in a number of programs the 2005 utilization statistics show a considerable increase from the 2004 data. Interviews with IOA management revealed that in most cases these increases were due to successful targeted marketing programs (for the ADHC, Alzheimer's Day Center, Irene Swindell's Center for AD Services, Elder Abuse Prevention, the SSE, and the OACM) or in the case of the increase seen in the Linkages program there was an increase in the State of California contract resulting in more clients being served starting in 2005. The jump in services seen in the MHA program resulted from a program expansion allowing for an increase in the number of counselors, which resulted in an increase in services.

Projected program volumes for IOA are seen in Table V-5. Based on actual year-to-date results, the 2008 ratio of each statistic per SA total frail-elderly income qualified person was applied to the respective SA population projection for each projection year to result in the 2008 to 2013 service projections for IOA. Again, the assumption here is that these respective 2008 rates provide a reasonable basis for projecting service volumes for each of IOA programs.

A few exceptions do apply to this methodology. Projections for 2008 through 2010 for the Ruth Ann Rosenberg Adult Day Health Center and the Alzheimer's Day Center have been held constant because of capacity constraints (related to available space). Staring in fiscal 2011, the Ruth Ann Rosenberg Adult Day Health Center will be eliminated. However, in 2011, projections for the Alzheimer's Day Center will be increased, based on the 2008 rate, because management believes there will now be adequate space to allow for this expansion, given that the Adult Day Health Center will no longer be in existence. Additionally, the Community Living Fund will cease to exist after 2010, and starting in fiscal 2008, research in the clinical trials will be eliminated as well. Therefore, no activity is reported after any program elimination.

Table V-4
Historical IOA Program Volumes

Fiscal Year Ended June 30	2003	2004	2005	2006	2007	YTD 2008
SA Total Frail Elderly 65 + Years who are Income Qualified	**901**	**882**	**864**	**846**	**828**	**422**
Daytime Senior Health Centers						
Ruth Ann Rosenberg Adult Day Health Center - Client Days	**13,608**	**13,040**	**13,922**	**12,950**	**12,243**	**6,544**
Ratio of client days per frail elderly income qualified person	15.10375	14.78151	16.11735	15.31126	14.78364	15.51413
Alzheimer's Day Center visits - Client Days	**7,889**	**7,021**	**7,496**	**6,973**	**10,017**	**5,040**
Ratio of client days per frail elderly income qualified person	8.75613	7.95866	8.67804	8.24452	12.09570	11.94854
Irene Swindells Center for AD Services - Client Days	**1,204**	**2,655**	**4,202**	**4,745**	**4,700**	**2,746**
Ratio of client days per frail elderly income qualified person	1.33634	3.00958	4.86461	5.61021	5.67533	6.51006
Community Outreach						
Consortium for Elder Abuse Prevention - Hours	**1,532**	**1,938**	**2,448**	**2,397**	**2,347**	**1,250**
Ratio of Elder Abuse Prevention Hours per frail elderly income qualified person	1.70039	2.19682	2.83402	2.83402	2.83402	2.96343
Elders and Youth in the Arts - Number of Clients Served	**250**	**250**	**250**	**380**	**540**	**250**
Ratio of clients served per frail elderly income qualified person	0.27748	0.28339	0.28942	0.44929	0.65206	0.59269
Neighborhood Resource Centers/Information and Referral Client Encounters/Drop-in Visits	**2,759**	**5,415**	**5,316**	**3,913**	**3,115**	**1,548**
Ratio of Client Encounters/Drop-in Visits per frail elderly income qualified person	3.06226	6.13818	6.15428	4.62650	3.76142	3.66991
Case Management and Support at Home						
Linkages - Duplicated Clients Served	**2,100**	**2,004**	**2,388**	**2,796**	**2,520**	**852**
Ratio of duplicated clients served per frail elderly income qualified person	2.33083	2.27164	2.76456	3.30583	3.04294	2.01987
Multipurpose Senior Services Program (MSSP) - Duplicated Clients Served	**6,420**	**6,120**	**6,072**	**7,084**	**6,312**	**3,102**
Ratio of duplicated clients served per frail elderly income qualified person	7.12567	6.93733	7.02949	8.37570	7.62185	7.35404
Older Adults Care Management (OACM) - Hours Billed	**125,238**	**112,359**	**128,955**	**136,193**	**135,873**	**83,042**
Ratio of OACM hours billed for per frail elderly income qualified person	139.00375	127.36469	149.28980	161.02656	164.06905	196.87109
Support Services For Elders (SSE)	**6,261**	**6,754**	**7,097**	**6,595**	**3,678**	**2,324**
Ratio of SSE Encounters per frail elderly income qualified person	6.94919	7.65601	8.21612	7.79754	4.44125	5.51043
Psychological Services						
Geriatric Assessment Center - Cases	**na**	**na**	**na**	**180**	**110**	**61**
Ratio of cases served per frail elderly income qualified person	-	-	-	0.2128	0.1328	0.1446
Friendship Line & Center for Elderly Suicide Prevention Encounters	**31,110**	**31,234**	**31,358**	**30,704**	**44,292**	**23,621**
Ratio of Friendship Line & Center for ESP encounters per frail elderly income qualified person	34.52951	35.40534	36.30282	36.30282	53.48337	55.99928
Mental Health & Aging (MHA)	**2,184**	**2,160**	**3,848**	**4,380**	**4,657**	**1,485**
Ratio of MHA encounters per frail elderly income qualified person	2.42406	2.44847	4.45479	5.17865	5.62341	3.52055
Other						
Research - Clients used in Clinical Trials	**10**	**10**	**10**	**10**	**5**	**0**
Ratio of clients used per frail elderly income qualified person	0.01110	0.01134	0.01158	0.01182	0.00604	-
Spiritual Healing Center Encounters	**na**	**6,165**	**6,343**	**7,131**	**7,253**	**3,694**
Ratio of Spiritual Healing Center encounters per frail elderly income qualified person	-	6.98834	7.34322	8.43127	8.75813	8.75813
Community Living Fund - Clients served	**na**	**na**	**na**	**na**	**65**	**130**
Ratio of Community Living Fund Clients served per frail elderly income qualified person	na	na	na	na	0.0785	0.3082

[1]In YTD 2008 half of the population projection was used as statistics are for six months

Source: Historical program utilization statistics provide by IOA and HFS calculations for utilization rates

Table V-5
Projected IOA Program Volumes

Fiscal Year Ended June 30	2008	2009	2010	2011	2012	2013
SA Total Frail Elderly 65 + Years who are Income Qualified	**844**	**860**	**876**	**893**	**910**	**928**
Daytime Senior Health Centers						
Ruth Ann Rosenberg Adult Day Health Center - Client Days	**13,088**	**13,088**	**13,088**	**na**	**na**	**na**
Ratio of client days per frail elderly income qualified person	15.51413	15.22646	14.94111	na	na	na
Alzheimer's Day Center visits - Client Days	**10,080**	**10,080**	**10,080**	**10,669**	**10,877**	**11,091**
Ratio of client days per frail elderly income qualified person	11.94854	11.72698	11.50721	11.94854	11.94854	11.94854
Irene Swindells Center for AD Services - Client Days	**5,492**	**5,596**	**5,703**	**5,813**	**5,926**	**6,043**
Ratio of client days per frail elderly income qualified person	6.51006	6.51006	6.51006	6.51006	6.51006	6.51006
Community Outreach						
Consortium for Elder Abuse Prevention - Hours	**2,500**	**2,547**	**2,596**	**2,646**	**2,698**	**2,751**
Ratio of Elder Abuse Prevention Hours per frail elderly income qualified person	2.96343	2.96343	2.96343	2.96343	2.96343	2.96343
Elders and Youth in the Arts - Number of Clients Served	**500**	**509**	**519**	**529**	**540**	**550**
Ratio of clients served per frail elderly income qualified person	0.59269	0.59269	0.59269	0.59269	0.59269	0.59269
Neighborhood Resource Centers/Information and Referral Client Encounters/Drop-in Visits	**3,096**	**3,154**	**3,215**	**3,277**	**3,341**	**3,406**
Ratio of Client Encounters/Drop-in Visits per frail elderly income qualified person	3.66991	3.66991	3.66991	3.66991	3.66991	3.66991
Case Management and Support at Home						
Linkages - Duplicated Clients Served	**1,704**	**1,736**	**1,769**	**1,804**	**1,839**	**1,875**
Ratio of duplicated clients served per frail elderly income qualified person	2.01987	2.01987	2.01987	2.01987	2.01987	2.01987
Multipurpose Senior Services Program (MSSP) - Duplicated Clients Served	**6,204**	**6,321**	**6,442**	**6,566**	**6,694**	**6,826**
Ratio of duplicated clients served per frail elderly income qualified person	7.35404	7.35404	7.35404	7.35404	7.35404	7.35404
Older Adults Care Management (OACM) - Hours Billed	**166,084**	**169,222**	**172,454**	**175,782**	**179,210**	**182,740**
Ratio of OACM hours billed for per frail elderly income qualified person	196.87109	196.87109	196.87109	196.87109	196.87109	196.87109
Support Services For Elders (SSE)	**4,649**	**4,737**	**4,827**	**4,920**	**5,016**	**5,115**
Ratio of SSE Encounters per frail elderly income qualified person	5.51043	5.51043	5.51043	5.51043	5.51043	5.51043
Psychological Services						
Geriatric Assessment Center - Cases	**122**	**124**	**127**	**129**	**132**	**134**
Ratio of cases served per frail elderly income qualified person	0.14462	0.14462	0.14462	0.14462	0.14462	0.14462
Friendship Line & Center for Elderly Suicide Prevention Encounters	**47,242**	**48,135**	**49,054**	**50,001**	**50,976**	**51,980**
Ratio of Friendship Line & Center for ESP encounters per frail elderly income qualified person	55.99928	55.99928	55.99928	55.99928	55.99928	55.99928
Mental Health & Aging (MHA)	**2,970**	**3,026**	**3,084**	**3,143**	**3,205**	**3,268**
Ratio of MHA encounters per frail elderly income qualified person	3.52055	3.52055	3.52055	3.52055	3.52055	3.52055
Other						
Research - Clients used in Clinical Trials	**na**	**na**	**na**	**na**	**na**	**na**
Ratio of clients used per frail elderly income qualified person	na	na	na	na	na	na
Spiritual Healing Center Encounters	**7,389**	**7,528**	**7,672**	**7,820**	**7,972**	**8,129**
Ratio of Spiritual Healing Center encounters per frail elderly income qualified person	8.75813	8.75813	8.75813	8.75813	8.75813	8.75813
Community Living Fund - Clients served	**260**	**265**	**270**	**na**	**na**	**na**
Ratio of Community Living Fund Clients served per frail elderly income qualified person	0.30820	0.30820	0.30820	na	na	na

Source: HFS calculations based on 2008 YTD use rates

Summary of the Demand Analysis for the Service Area and IOA

This section has provided the historical and projected demand analysis for the SA and the relevant IOA statistics. Additionally, the interviews with subject matter experts relevant to this project were summarized as these discussions influenced HFS' methodological approaches to the demand projections and assessment of the market's acceptance of this project. Accordingly, reasonable increases in the On Lok membership served by IOA are projected (Refer to Table V-3) as well as demand increases projected for IOA programs (Refer to Table V-5).

VI. Financial Forecast General Procedures

Historical data for the audited fiscal years ended June 30, 2005 through 2007 and the internal financial statements for the six months ended December 31, 2007 were analyzed, as the basis of the projection.

Overall Methodology

On a summary level, our methodology consisted of the following steps:

- Gathered and summarized historical financial and utilization data from IOA
- Developed utilization projections based upon historical data and information derived from interviews and market usage
- Developed the revenue and expense projection assumptions based upon historical IOA financial performance, interviews with IOA management and industry standards
- Prepared a projection of financial performance for the years ending June 30, 2008 through June 30, 2013

Plan of Financing

Funds provided by the Cal Mortgage Insured Tax Exempt Bond Issue, Series 2008 Bonds, and IOA existing funds are being issued to:

- Construct a new building to provide a consolidation of services currently being provided by IOA at various locations for the estimated cost of $32,600,000, which includes architectural fees, equipment, contingencies and land acquisition. A significant portion of this amount is expected to be spent during the 24-month construction period which is assumed to be starting on June 1, 2008 and ending on May 31, 2010. The opening date of the new building is estimated to be June 2010. The difference between the Project Funds included in the Uses of Funds in Table VI-1 below and the total project costs is anticipated interest earnings on the project fund during construction of $1,048,000.
- Reimburse the facility for pre-development expenditures made prior to the bond financing and acquisition of the land, which is included in the $32,600,000 above.
- Establish the Debt Service Reserve Fund
- Fund interest on Bonds for 30 months
- Pay the costs of issuance
- Fund working capital of $2,000,000

In addition IOA will issue Series 2008 Taxable Bonds which is estimated at $5,030,000 to refinance $3,500,000 of existing debt.

The summary of Sources and Uses of Funds that was used in preparing the financial projection are presented in the table below.

Table VI-1
Estimated Sources and Uses of Proceeds

	Tax-Exempt	Taxable	Combined
Total Debt	$ 39,925,000	$ 5,030,000	$ 44,955,000
Interest Rate	5.000%	5.625%	
Term	30 years	9 years	
Sources:			
Bond Proceeds			
Par Amount	$ 39,925,000	$ 5,030,000	$ 44,955,000
Bond Discount	(314,957)	-	(314,957)
Equity Contribution	4,436,111	558,889	4,995,000
Total Sources of Funds	44,046,155	5,588,889	49,635,044
Uses of Funds:			
Project Fund	29,436,427	-	29,436,427
Contingency at 8% of Future Costs	2,115,080	-	2,115,080
Total Project Fund Costs	31,551,507	-	31,551,507
Working Capital	2,000,000		2,000,000
Refinance Bank line of Credit		3,500,000	3,500,000
Other Costs:			
Debt Service Reserve Fund	1,984,906	1,034,344	3,019,250
Capitalized Interest Fund, Net	5,127,658	730,922	5,858,580
Costs of Issuance	3,382,083	323,623	3,705,707
Total Uses of Funds	$ 44,046,155	$ 5,588,889	$ 49,635,044

Source: Cain Brothers

Description of the Bonds

Based on the scope of the project and the refinancing of existing debt, the financing will be provided through two series of bonds. The Series 2008 Tax-exempt Revenue Bonds (Tax-exempt Bonds) dated June 1, 2008 will be used to finance the construction project and the $2,000,000 in working capital. The term of the Tax-exempt Bonds are assumed to be 30 years and carry an average coupon rate of 5.0 percent. The debt service schedule for the Tax-exempt Bonds is shown in the following table.

Table VI-2
Bond Debt Service Schedule

Year (Due 06/01)	Principal	Interest	Total Debt Service	Year (Due 06/01)	Principal	Interest	Total Debt Service
06/01/09	$ -	$ 1,984,900	$ 1,984,900	06/01/24	$ 1,380,000	$ 1,638,250	$ 3,018,250
06/01/10	-	1,984,900	1,984,900	06/01/25	1,445,000	1,569,250	3,014,250
06/01/11	-	1,984,900	1,984,900	06/01/26	1,520,000	1,497,000	3,017,000
06/01/12	-	1,984,900	1,984,900	06/01/27	1,595,000	1,421,000	3,016,000
06/01/13	-	1,984,900	1,984,900	06/01/28	1,675,000	1,341,250	3,016,250
06/01/14	-	1,984,900	1,984,900	06/01/29	1,760,000	1,257,500	3,017,500
06/01/15	-	1,984,900	1,984,900	06/01/30	1,845,000	1,169,500	3,014,500
06/01/16	-	1,984,900	1,984,900	06/01/31	1,940,000	1,077,250	3,017,250
06/01/17	145,000	1,984,900	2,129,900	06/01/32	2,035,000	980,250	3,015,250
06/01/18	1,040,000	1,978,375	3,018,375	06/01/33	2,140,000	878,500	3,018,500
06/01/19	1,085,000	1,931,575	3,016,575	06/01/34	2,245,000	771,500	3,016,500
06/01/20	1,135,000	1,882,750	3,017,750	06/01/35	2,360,000	659,250	3,019,250
06/01/21	1,190,000	1,826,000	3,016,000	06/01/36	2,475,000	541,250	3,016,250
06/01/22	1,250,000	1,766,500	3,016,500	06/01/37	2,600,000	417,500	3,017,500
06/01/23	1,315,000	1,704,000	3,019,000	06/01/38	5,750,000	287,500	6,037,500

Source: Cain Brothers

The Series 2008 Taxable Bonds (Taxable Bonds) dated June 1, 2008 will be used to refinance the existing $3,500,000 Line of Credit. The term of the Taxable Bonds are assumed to be nine years and carry an average coupon rate of 5.625 percent. The debt service schedule for the Taxable Bonds is shown in the following table.

Table VI-3
Taxable Bond Debt Service Schedule

Year (Due 06/01)	Principal	Interest	Total Debt Service
06/01/09	$ -	$ 282,938	$ 282,938
06/01/10	-	282,938	282,938
06/01/11	-	282,938	282,938
06/01/12	750,000	282,938	1,032,938
06/01/13	790,000	240,750	1,030,750
06/01/14	835,000	196,313	1,031,313
06/01/15	885,000	149,344	1,034,344
06/01/16	930,000	99,563	1,029,563
06/01/17	840,000	47,250	887,250

Source: Cain Brothers

Financial Summary

Debt service coverage is calculated by dividing annual debt service requirements into projected income available for debt service. The projected debt service coverage for IOA is presented in the following table.

Table VI-4
Projected Debt Service Coverage

	For the Years Ending June 30,					
	2008	2009	2010	2011	2012	2013
Including existing debt:						
Net Income	2,454,531	2,533,409	948,590	10,289	507,493	607,428
Plus: Depreciation, Amort & Interest	643,806	649,860	949,707	4,023,074	4,009,558	3,965,183
Plus: Funded Interest	188,986	2,267,838	2,267,838	944,932	-	-
Total Funds Available for Debt Service	3,287,324	5,451,106	4,166,134	4,978,296	4,517,051	4,572,611
Total Debt Service	1,376,090	2,267,838	2,267,838	2,267,838	3,014,322	3,011,947
Total Debt Service Coverage	2.39	2.40	1.84	2.20	1.50	1.52

Revenue and Expense Assumptions and Methodology

Exhibit A of this report contains the Forecasted Balance Sheets, Statements of Operations, Statements of Cash Flow and Financial Ratios for IOA. The assumptions and methodology used in developing this projection are described in the following paragraphs.

In general, revenues and expenses were projected using the audited financial and statistical data for the years ended June 30, 2005, 2006, and 2007 and the actual year-to-date internal financial statements for the six months ended December 31, 2007.

Contractual allowances were generally based on the latest payment rates and federal and state reimbursement regulations. However, certain line items were projected differently as explained in subsequent sections of this report. The following paragraphs address each significant line item on the Projected Statements of Operations. The inflation assumptions were applied to all services projected in these financial statements.

Revenue

Grant Revenue

IOA has historically received grant money each year. The grants are state, county or institutional funded. Table VI-5 reflects the detail of all the grants received during the past three historical years and the amount projected for specific projection years. For projection purposes, funding for each grant has increased annually by 2.5 percent throughout the projection based on the year-to-date grant activity and the current terms of the grant agreements. Per Management, due to various expiration dates of these grants, IOA is constantly applying for new or renewal of existing grants to maintain their current level of grant funding.

One exception does apply to the paragraph above. The Community Living Fund will be eliminated starting in fiscal 2011 due to termination of the program. This is the reason for the decrease in City & County of San Francisco grants from 2008 to 2013 in Table VI-5 below.

Table VI-5
Projected Grant Revenue

Grant	Funding Source	Actual 2005	Actual 2006	Actual 2007	Projected 2008	Projected 2013
California Department of Aging	State	$ 2,055,910	$ 1,972,126	$ 2,266,095	$ 2,305,180	$ 2,608,100
City & County of San Francisco	County	992,796	1,056,533	1,351,538	1,899,015	376,925
Misc. Institutions	Institution	1,624,935	596,630	975,728	1,675,248	1,926,860
Total Grants		$ 4,673,641	$ 3,625,289	$ 4,593,361	$ 5,879,443	$ 4,911,885

Contributions

Contribution revenue includes two main categories of contributions. The first is contributions for general operating needs and funding for specific programs. The second is fundraising for the new building project. The contributions are projected based on actual results from the years ended June 30, 2005 through 2007 and the six months ended December 31, 2007, and discussions with IOA management.

The contributions for general operating needs and funding of specific programs is projected based on actual fiscal 2007 and the six months ended December 31, 2007 and increased 3.0 percent annually throughout the projection period based on management's assumption and historical experience.

As for contributions relating to the new building project, in 2008 and 2009, the projected annual contributions included in non-operating revenue are $2,532,000 and $2,250,000 respectively. Starting in 2010 the contributions are reduced to $750,000 and remain at that level in each subsequent projection period.

Investment Income

Investment income includes earnings on investments as well as interest income on available cash. The rate of return on investment earnings is projected based on the historical results for the years ended June 30, 2005 through 2007 and the internal financial statements for the six months ended December 31, 2007. Investment earnings are projected based on the average investment balance and debt service reserve fund balance for each year assuming an annual interest rate of 5.5 percent and 5.0 percent, respectively. Interest income was projected based on the average cash balance for each year assuming an annual interest rate of 2.5 percent.

Gains/Losses on Investments – Realized or Unrealized

Historical gains and losses have been reported based on actual results of market performance. Due to the uncertainty of market performance, no gains or losses have been projected in future years.

Patient Service Revenue

IOA provides many different services to its clients. The description of each service has been provided in Section I. A summary of funding sources and the applicable percentage of net revenue from audited 2007 for each of those services is presented in the following table.

Table VI-6
Funding Sources & Percentage of Net Patient Revenue

IOA Service	Funding Source	% of Net Patient Revenue
On Lok SeniorHealth (PACE)	On Lok Agreement	68.47%
Older Adults Care Management (OACM)	Private Pay	18.62%
Adult Day Health / Alzheimer's Day Centers	Medi-Cal/Private Pay	8.16%
Irene Swindell's Center for Adult Day Services	Private Pay	1.63%
Support Services for Elders (SSE)	Private Pay	1.46%
Mental Health and Aging (MHA)	Medicare/Private Pay	0.83%
Assessment Center	Medicare/Private Pay	0.34%
Center for Elders and Youth in the Arts (CEYA)	Private Pay	0.29%
Bay Area Jewish Healing Center (BAJHC)	Private Pay	0.18%
Friendship Line & Centers for Elderly Suicide Prevention (CESP)	City & Cty of S.F.	0.01%
Neighborhood Resource Centers / Information & Referral (IC&R)	City & Cty of S.F.	0.01%

Patient Service Revenue is projected based on actual historical trends of charges or reimbursement rates from the years ended June 30, 2005, 2006, and 2007 and the actual six months ended December 31, 2007, for the existing IOA services. Generally, patient service revenue was projected by using an appropriate statistical basis (e.g. patient visits) to calculate a historical revenue per-statistic, with the exception of PACE revenue. The average revenue per statistic amount is then multiplied by the projected utilization statistics to arrive at the projected total revenue. Reimbursement rate increases between 2.0 percent and 5.0 percent have been applied for each of the projected years beginning in fiscal year 2008.

PACE Revenue is projected based on the terms set forth in the On Lok/IOA agreement for fiscal year 2008. IOA receives a fixed monthly amount of $875,000 for contracted services provided by IOA to PACE members. The fixed monthly fee is projected to increase $25,000 per year to account for the increase in members and the cost of providing the service, with the exception of 2011 and 2012. In fiscal years 2011 and 2012, the number of PACE members is projected to increase significantly more than in other years due to the opening of the new building. In order to reflect properly the increase in PACE members, the fixed monthly fee is adjusted for the new IOA members. The increase is calculated by dividing the monthly amount from fiscal year 2010 by the members per month for that year. The fee per member is then inflated by 3 percent and multiplied by the 2011 members to compute 2011 net revenue. In 2012 the fee per member from 2011 is inflated by 3 percent and multiplied by the 2012 members to compute the 2012 net revenue.

In addition, to ensure appropriate utilization of certain contracted medical and institutional services, the On Lok agreement requires the establishment of a sub-capitation risk pools and risk sharing arrangement to cover these services. For the period from July 1, 2007 through June 30, 2008, IOA and On Lok share risk for contracted hospice, skilled nursing facility services and board and care services. The sub-capitation and risk sharing arrangements for these services is on average $1,131.17 per member per month. This amount is booked to patient service revenue and off-set against PACE contract labor. At the end of the year any surplus or loss of the sub-capitation pools is determined. Historically, the year end surplus or loss has not been deemed significant ranging from a loss of $147,000 in 2005, a surplus of $199,000 in 2006 and a loss of $38,000 in 2007. Unfortunately, during the first six months of fiscal 2008 IOA has experienced increased healthcare costs pertaining to applicable PACE members who have required more board and care services than expected. As a result IOA Management is anticipating a loss of the sub-capitation risk pools of $400,000 in fiscal 2008 which is included in contract labor. IOA management deems this to be an unusual event and does not anticipate such a significant loss in future projection years. Therefore based on historical trending of the past four years, a $100,000 loss of the sub-capitation risk pools is estimated for each subsequent projection year.

Deductions from Revenue

Deductions from revenue include Medi-Cal allowances which result from the participation of IOA in the Adult Day Health Care reimbursement program as well as Medicare allowances for participation in the Mental Health and Assessment Services. The contractual allowance represents the difference between full charges for services to cover beneficiaries and the actual payments received from Medi-Cal or Medicare.

Medicare and Medi-Cal reimbursement regulations have frequently changed in the past depending on State and Federal Funding priorities. There is every indication that reimbursement regulations will continue to be modified from time to time in the future. The estimated contractual allowances for the projected statements were computed based on interpretations of the current Medicare and Medi-Cal regulations. It is likely that these regulations may change in the future and that any changes could have a material impact on the results from operations.

Medicare

There are two services that IOA provides that are funded by Medicare. They are assessment services and mental health services. The Medicare contractual allowance is calculated based on the difference between the average charge per case to the average reimbursement per case. Reimbursement for Medicare was projected based upon the current per case Medicare rate being received by the Assessment Center and the per-case Medicare rate being received by the Mental Health Program. An annual inflation rate of 3 percent was applied.

Medi-Cal

The only service that IOA provides that is funded by Medi-Cal is the Adult Day Health Centers. The Medi-Cal contractual allowance is calculated based on the difference between the average charge per visit to the average reimbursement per visit. Reimbursement for Medi-Cal was projected based upon the current per visit Medi-Cal rate being received by Adult Day Health Centers, which will be inflated on August 1 of each year. The Medi-Cal per visit rate is projected to increase at an annual inflation of 2 percent.

Other Revenue

Other Revenue in the projection period represents both other operating and other non-operating revenues. Other operating revenue includes several items including Adult Day Services Network subsidy for certain private pay clients and outsourcing revenues for IT services provided to another non-profit company. The revenue in fiscal 2008 was computed using historical experience and management's assumptions. All future years were inflated at 3 percent per annum throughout the projection period. One exception to the above is that in 2010 IOA plans to reduce the Adult Day Health Program. Therefore, the Adult Day Services Network subsidy has been reduced accordingly.

Other non-operating revenue includes revenue earned for the rental of parking spaces at the current location site for the new building prior to start of construction. No revenue was projected in future years due to the construction of the new building that will begin in June 2008.

Operating Expenses

Salaries and Wages

Salaries and wages are projected as follows:

- The existing services provided by IOA are projected based on the staffing levels and hourly rates for the fiscal year ended June 30, 2007 and the six months ended December 31, 2007. Staffing levels for the majority of the departments are projected using the average FTE per statistic from fiscal 2007, however, based on discussion with IOA Management the staffing levels in several departments are projected based on the six months ended December 31,

2007. The projected FTEs are then multiplied by the average salary per FTE. An annual salary increase is applied to the average salary per FTE beginning in fiscal year 2008.

- In the projection period, the number of home health aides relating to PACE services is increased based on a ratio of projected increase in memberships. However, in fiscal 2011, an exception was made to that methodology. During fiscal 2011, a significant increase in PACE members is being projected as a result of 50 Bridge housing units in the new building being designated for PACE members. Management believes it will only require the addition of two home health aides to provide quality care to those increased members since they will all be living in the new building and no travel will be required to the individual's homes. Therefore, the increase in FTEs during fiscal 2011 is limited to the addition of two Home Health Aides.

The annual salary increase for all these services is assumed to be 3.0 percent.

Table VI-7 presents projected staffing patterns and salary expenses.

Table VI-7
Actual and Projected Salaries and FTE's

Actual or Projected Year	Salaries & Wages	FTEs	Salary per FTE
2005	9,420,828	226.23	41,642
2006	11,867,472	298.77	39,721
2007	12,549,211	291.99	42,978
2008	13,548,119	308.73	43,883
2009	14,127,372	313.77	45,025
2010	14,635,020	317.07	46,156
2011	14,878,653	316.29	47,041
2012	15,646,945	325.34	48,094
2013	16,240,928	329.45	49,297

Note: Salary dollars include salaries for capital campaign staff grouped as non-operating expenses

Employee Benefits

Employee Benefits include payroll taxes, workers compensation, insurance payments, health insurance premiums, and all other "fringe" benefits associated with employment. Employee benefits are projected at 25 percent of salaries and wages in 2008, based on actual results June 30, 2007. Each subsequent year a 0.5 percent increase was added to account for rising healthcare costs.

Professional Fees and Contract Labor

Professional fees and contract labor are projected based upon an expense per statistic plus an inflationary increase with the exception of the PACE contract labor. A utilization statistic was assigned, i.e. patient visits, to develop the appropriate expense per utilization statistic for certain professional fees and contract labor. These professional fees and contract labor pertain to any services that are variable based on fluctuation of utilization. Examples of such services include Adult Day Health visits and Mental Health visits. The remaining professional fees and contract labor are projected upon an inflationary factor only and are considered a fixed expense. Examples of such service include Administration and Education programs. These expenses were inflated forward based on actual expenses for the six months ending December 31, 2007. All professional fees and contract labor assume an annual 3 percent inflation rate beginning in fiscal 2009.

A significant amount of contract labor relates to the PACE program. PACE contract labor is projected by multiplying the total PACE members per month by the risk-sharing sub-capitation amount per the On-Lok agreement. This expense is offset against the PACE sub-capitation revenue that was explained previously in this section. This offset has no income statement effect on the financial projections. Per IOA's financial auditors, this accounting entry is required to show the funding of the risk sharing pools even though no cash is transferred between IOA and On Lok. As noted above in the patient service revenue section, during the first six months of fiscal 2008 IOA has experienced increased healthcare costs pertaining to applicable PACE members who have required more board and care services than expected. As a result IOA Management is anticipating a loss in the sub-capitation risk pools of $400,000 in fiscal 2008 which is included in contract labor. IOA management deems this to be an unusual event and does not anticipate such a significant loss in future projection years. Therefore based on historical trending of the past four years an annual loss of $100,000 of the sub-capitation risk pools is estimated throughout the remainder of the projection period.

Occupancy

Rents and leases for the existing locations are assumed to be fixed with respect to patient utilization and were inflated based on the current terms on the existing leases, some being fixed each year with others increasing 3 percent annually. Effective on July 1, 2010, it is assumed that the lease agreements at 2700 Geary Boulevard, 3600 Geary Boulevard, 3626 Geary Boulevard and the 3330 Geary Boulevard will be terminated with the opening of the new IOA Building, which results in lease savings of approximately $968,000. The services housed at these buildings will be moved to the new IOA Building at 3575 Geary Boulevard.

Utilities (including telephone expenses) and Repairs and Maintenance expenses for the existing locations are assumed to be fixed with respect to patient utilization, and were inflated 3 percent to account for cost increases. Beginning July 1, 2010, utilities and repairs and maintenance were adjusted for the opening of the new building. The ratio of utilities and repairs and maintenance expense per square footage from the leased buildings was calculated from fiscal year 2007. This ratio was inflated to fiscal year 2011 rates and then multiplied by the square footage for the new building. As stated above, four lease agreements for a total of 36,000 square feet were terminated on June 30, 2010. The new IOA building will have a total of 41,000 square feet, or an addition of 5,000 square feet, therefore increasing utilities and repairs and maintenance expense in fiscal years 2011 through 2013.

The net impact between the reduction in lease expense and increase in utilities and maintenance is a significant decrease between 2010 and 2011.

Other Expenses

Other Expenses include such expenses as advertising, public relations, purchased services, equipment rental, license and fees and other miscellaneous expenses. Other Expenses are projected based upon an expense per statistic plus an inflationary increase based on fiscal years ended June 30, 2005 through 2007 and the internal financial statements for the six months ended December 31, 2007. A utilization statistic was assigned, i.e., patient visits, to develop the appropriate expense per utilization statistic for certain Other Expenses. These Other Expenses include any expenses that are variable based on fluctuation of utilization. Examples of such expenses include purchase services and equipment rentals.

The remaining expenses are projected upon an inflationary factor only and are considered fixed expenses. Examples of such expenses include dues and subscriptions and license and fees. These expenses are inflated forward based on actual expenses for the actual six months ending December 31, 2007. All these expenses reflect a 3 percent overall inflation rate beginning in 2009.

Client Transportation

Client Transportation expenses are projected based upon an expense per statistic plus an inflationary increase based on fiscal years ended June 30, 2005 through 2007 and the internal financial statements for the six months ended December 31, 2007. A utilization statistic was assigned, i.e., patient visits, to develop the appropriate expense per utilization statistic for certain transportation expenses. These expenses include any services that are variable based on fluctuation of utilization. Examples of such services include Adult Day Health Services and PACE services. It must be noted that PACE transportation expenses were adjusted in fiscal year 2011. A significant increase in PACE members is projected in fiscal year 2011 as a result of 50 Bridge housing units in the new building being designated for PACE members. With the assumption that the 50 units will be full in fiscal year 2011, there will not be an increase in the number of PACE members requiring transportation from their homes to the treatment center as they will be living above the treatment center. Therefore, an adjustment was made to reduce the statistic used to project patient transportation expenses for the PACE department.

The remaining services are projected upon an inflationary factor only and are considered a fixed expense. Examples of such services include Administration and Education. These expenses are inflated forward based on actual expenses for the actual six months ending December 31, 2007. All these expenses reflect a 3 percent overall inflation rate beginning in fiscal 2009.

Supplies

Supplies consist of Patient Care and Operational supplies. Patient Care supplies consist of Medical, Pharmaceutical and Program supplies. Patient care supplies were projected using an appropriate statistical basis (e.g., patient visit) to calculate the historical cost per-statistic.

Operational supplies are those items used by IOA in its normal course of operations (e.g. pencils, paper, etc.). Operational supplies are projected using an appropriate statistical basis (e.g. patient visits) to calculate the historical cost per-statistic if deemed variable or are deemed fixed regardless of utilization based on the type of supply item.

In fiscal 2008 the actual supply costs per-statistics for the six months ended December 2007 were multiplied by the projected utilization statistics if deemed variable. Beginning in 2009 an annual inflation rate of 3 percent was applied to arrive at the projected expense. Subsequent years are consistent with an annual inflation of 3 percent**.**

Depreciation

Projected depreciation expense is based on the following:

- **Depreciation of existing property, plant and equipment** was furnished by IOA based upon existing depreciation lives as of June 30, 2007.
- **Depreciation related to ongoing capital expenditures** for new equipment purchases is projected using an assumed 5 year average asset life. Total capital expenditures were projected at $150,000 in each fiscal year beginning in fiscal 2008.
- **Depreciation of new building and equipment** which is expected to be completed by May 31, 2010. These assets are depreciated over an average of 30 and 5 years, respectively.

Table VI-8 presents total land, building and improvements, equipment and fixtures, construction in progress, accumulated depreciation, annual depreciation and average lives.

Table VI-8
Projected Fixed Assets
(in thousands)

	Avg Lives in Years	2008	2009	2010	2011	2012	2013
Land	na	$ 2,161	$ 2,161	$ 2,161	$ 2,161	$ 2,161	$ 2,161
Building	30	3,478	3,478	39,452	39,452	39,452	39,452
Equipment	5	1,318	1,468	2,618	2,768	2,918	3,068
Construction-in-Progress	na	7,290	27,097	225	225	225	225
Total Fixed Assets		14,247	34,203	44,456	44,606	44,756	44,906
Less: Accumulated Depr.		(4,064)	(4,391)	(4,841)	(6,432)	(8,014)	(9,594)
Net Property and Equipment		10,183	29,813	39,615	38,173	36,742	35,312
Depreciation Expense		$ 362	$ 326	$ 450	$ 1,592	$ 1,582	$ 1,580

Waived and Special Services

Waived and Special Services represent special services provided to the Multipurpose Senior Services Program clients. These expenses are projected based upon an expense per statistic plus an inflationary increase based on fiscal years ended June 30, 2005 through 2007 and the internal financial statements for the six months ended December 31, 2007. A utilization statistic was assigned, i.e., patient visits, to develop the appropriate expense per utilization statistic for waived services. A 3 percent inflation rate was applied to the expense per statistic throughout the projection period.

Insurance

Property insurance expenses are assumed fixed and are projected based on the actual expenses for the year ended June 30, 2007, with the exception of fiscal years 2011 through 2013. Beginning June 1, 2010, property insurance expense was adjusted for the opening of the new building. The ratio of property insurance expense per square footage from the leased buildings was calculated from fiscal year 2007. This ratio was inflated to fiscal year 2011 rates and then multiplied by the square footage for the new building plus the remaining leases. As stated above, four lease agreements for a total of 36,000 square feet were terminated on May 31, 2010. The new IOA building will have a total of 41,000 square feet, or an addition of 5,000 square feet, therefore increasing the property insurance expense in fiscal years 2011 through 2013. An annual inflation rate of 3 percent is applied throughout the projection period.

Liability Insurance expenses are assumed variable and are projected using an appropriate statistical basis (e.g. patient visit) to calculate the historical cost per-statistic. The ratios are multiplied by the projected utilization statistics and applied an annual inflation of 3 percent to arrive at the projected expense in 2008. Subsequent years are consistent with an annual inflation of 3 percent**.**

Amortization

Amortization expense is projected based on the amortization related to the financing costs, Cal Mortgage insurance premium and costs associated with issuance of the 2008 Bonds. These expenditures, shown in Table VI-1, Estimated Sources and Uses of Proceeds, listed earlier in this report are assumed to amortize over a 30-year life for the tax-exempt bonds and a 9 year life for the taxable bonds.

Interest Expense

Interest expense was projected based on the following sources:

- **Interest associated with the Line of Credit** is based on a debt service schedule provided by IOA Management. The $3,500,000 line of credit will be refinanced June 1, 2008 with the taxable bonds.
- **Interest associated with the Tax-exempt Bonds** is based on the debt service schedule reflected earlier in Table VI-2. Interest on the tax-exempt bonds is capitalized until the opening of the new building.
- **Interest associated with the Taxable Bonds** is based on the debt service schedule reflected earlier in Table VI-3.

Legal and Accounting

Legal and Accounting fees are projected based the actual expenses incurred during the year ended June 30, 2007 and are assumed fixed expenses. An annual inflation rate of 3 percent is applied throughout the projection period.

Investment Management and Custodial Fees

Investment Management and Custodial Fees are projected based the actual expenses incurred during the year ended June 30, 2007 and are assumed fixed expenses. An annual inflation rate of 3 percent is applied throughout the projection period.

<u>Balance Sheet Assumptions and Methodology</u>

At the end of this report in Exhibit A is a statement entitled Projected Statements of Financial Position and Changes in Fund Balance, which contains projected balance sheet items for IOA. The assumptions and methodology used to calculate this projection are described in the following paragraphs.

Assets

Cash and Cash Equivalents

This represents the results of operations and the bond financing, which will take place in FYE 2008.

Grant and Contract Funds Receivable

Grants and Contract Funds Receivable are computed at 22.6 percent of the Grant Revenue shown on the Projected Statements of Operations for all the projected years. This ratio is based on historical experience for the fiscal years ended June 30, 2005 through 2007.

Patient Accounts Receivable, Net

Patient Accounts Receivable is shown net of all allowances and is computed based on days of the Net Patient Service Revenue shown on the Projected Statements of Operations for all the projected years. The ratio of days outstanding for accounts receivable used throughout the projection period is 20.21. This ratio is based on historical experience for the fiscal years ended June 30, 2005 through 2007.

Pledges Receivable

Pledges Receivable are projected based on management's assumptions and pledges that have been made to date.

Prepaid Expenses

Prepaid expenses are projected to be 0.6 percent of the non-salary expenses from the Projected Statements of Operations. This ratio is based on historical experience for the fiscal years ended June 30, 2005 through 2007.

Assets Limited to Use

Includes all funds restricted by the covenants governing the Bonds, which are the Construction Fund, Capitalized Interest Fund and Debt Service Reserve Fund and the Working Capital Fund.

Property, Plant and Equipment

Property, Plant and Equipment (PP&E) contains the PP&E from the fiscal year 2007 Balance Sheet, plus amounts spent on ongoing capital expenditures as already discussed, plus cash spent on new construction and acquisitions.

Accumulated Depreciation

Accumulated Depreciation is based on the total depreciation from IOA's 2007 Balance Sheet, plus annual depreciation expense from all sources (i.e. existing PP&E, ongoing capital expenditures, and new construction/acquisitions) as shown on the Projected Statements of Revenue and Expense Activities.

Construction in Progress

As cash is spent on the new project, those amounts are classified here until the project is completed. Upon completion, the construction in progress is reclassified to PP&E, which is anticipated to be May 31, 2010.

Investments

Investments include the accumulation of excess cash and are projected to increase $630 thousand in fiscal 2008, $4.21 million in fiscal 2009, $1.59 million in fiscal 2010, $3.18 million in fiscal 2011, $2.12 million in fiscal year 2012, and $1.45 million in 2013 per discussions with Management.

Deferred Financing Costs – 2008 Bonds

This balance represents the unamortized portion of the Bond Financing Costs, Cal Mortgage Premium and other costs associated to the financing. It is computed by deducting amortization expense as shown on the Projected Statement of Operations.

Deposits

Deposits are held flat at the fiscal year 2007 level throughout the projection period.

Due from Related Parties

Due from Related Parties is held flat at the fiscal year 2007 level throughout the projection period which is zero since no balance existing in fiscal year 2007.

Liabilities and Fund Balance

Accounts Payable and Accrued Expenses

Accounts Payable is projected at 50 days outstanding in fiscal 2008 and reduced to 45 days outstanding in fiscal 2009 based on non-salary expenses from the Projected Statements of Operations. This percent is based on historical experience for the fiscal years ended June 30, 2005 through 2007, and discussions with Management.

Accrued Wages and Benefits

Accrued Wages and Benefits are projected at 26.91 days of the Salaries and Benefits Expenses from the Projected Statements of Operations. The ratio of days to salaries and benefits expenses is based on historical experience for the fiscal years ended June 30, 2005 through 2007.

Advances

This balance represents one month of projected revenue from On-Lok. The balance is payable to On Lok at the end of the contract terms. Currently IOA has a five year contract with On Lok.

Advances for Air Rights

This balance relates to funds received from Bridge Housing Corporation for the "Air Rights" parcel they will purchase from IOA. This revenue can not be recognized until the final sale of the "Air Rights" in fiscal year 2008. The deferred revenue will be held flat until that time.

Current and Long-Term Portions Debt

All types of long-term debt are shown with the current portion (i.e. the portion expected to mature during the upcoming fiscal year) separated from the long-term portion. The amounts for the Bonds were derived from the Debt Service Schedule and the maturities of existing debt obligations were assumed based upon amortization schedules provided by IOA management.

Net Assets

Unrestricted net assets are calculated by adding net income from the Projected Statements of Revenue and Expense Activities to the historical unrestricted net assets at the end of the fiscal year. For each subsequent year, net income is added to the previous year's balance in a cumulative manner. Temporarily and Permanently restricted net assets are held flat at the fiscal year 2007 level.

Cash Flow Assumptions and Methodology

Exhibit A of this report contains the Projected Statement of Cash Flows, which reflects the cash flow projection for IOA. The assumptions and methodology used in this projected statement are described in the following paragraphs.

Sources of Cash

Cash from Operating Activities

The operations of IOA provide (or consume) cash to the extent that total operating revenues exceed total expenses as shown on the Projected Statement of Operations. Added to these net operating activities are non-cash flow items such as depreciation and amortization expenses. Both of these items provide additional cash flow to IOA's operations and need to be taken into effect when considering the net activities of the period. In addition, we add those changes in net current assets over net current liabilities as described below.

Total Increases/ (Decreases) in Cash due to Changes in Assets and Liabilities

Changes in current assets and current liability balances from year to year indicate a source or use of cash. For example, an increase in an asset (e.g. receivables) is a use of cash, while an increase in a liability (such as a loan debt) is a source of cash. The converse of this statement is also true. Therefore, changes in these balance sheet accounts must be considered by calculating how changes in their year-end balances affect cash. The Projected Statement of Cash Flows shows the effect of changes in the following account balances:

I. Grants and Contracts Receivable
II. Accounts Receivable, Net
III. Pledges Receivable
IV. Prepaid and Other Expenses
V. Deposits
VI. Due from Related Parties
VII. Accounts Payable & Accrued Expenses
VIII. Accrued Wages and Benefits
IX. Advances and Air Rights

The combination of the net revenue and expense activities, the non-operating items, the non-cash flow items and the changes in net current balance sheet items becomes the sources of cash, or the net cash provided by (used in) operations for the period.

Cash Flows from Investing Activities

These are activities covering the financial investment by IOA Management into fixed assets and other investment vehicles (such as Bonds) that provide sources/(uses) of cash in the current and future periods. The descriptions below are for those items included in this section.

On-Going Capital Expenditures

Capital expenditures for new property and equipment have been projected at $150,000 in each fiscal year beginning in 2008.

Construction Project/Equipment Acquisitions

Construction expenditures for the new IOA Building will be funded with proceeds of the Bonds and IOA contribution. The amount reserved for this project is $32,600,000 for the Construction of the new building, equipment additions and land acquisition as identified earlier in the report. As of June 30, 2007 IOA had spent $1,407,000 of this amount on the construction project and $2,161,000 to purchase the land. IOA anticipates spending the remaining amount in fiscal years 2008 through 2010.

Sale of Air Parcel

Proceeds from the sale of the “Air Rights” to Bridge Housing Corporation in the amount $6,591,000, which includes some land value.

Construction-in-Progress

As noted in the Acquisition of Furniture, Fixtures and Equipment section above, IOA will be constructing the new IOA Building between fiscal 2008 and fiscal 2010. The funding for this construction will be provided with the 2008 revenue bonds. Per IOA Management, the end of June 2010 will complete the construction. Therefore, the Construction-in-Progress account was eliminated as of June 30, 2010.

Debt Service Reserve Fund

Cash reserves associated with the Debt Service Reserve Fund are included in the amount of $3,019,250.

Capitalized Interest Fund

Capitalized Interest Fund includes funded interest for 30 months of debt service.

Construction Fund

Construction Fund includes cash funds available on the delivery date of the 2008 bonds to be spent on construction during fiscal years 2008 through 2010.

Cash Flows from Financing Activities

These are activities covering the financial investment into IOA by outside parties that will provide sources/ (uses) of cash in the current and future periods. The descriptions below are for those items included in this section.

Proceeds from Long Term Debt

This is the amount received upon the issuance of the Bonds as described earlier in Table VI-1, the Sources and Uses of Bonds.

Payment of Long Term Debt

These are payments being made to pay off the principal balance on all the outstanding debt on balance sheet, including the issuance of the existing revenue Bonds and payments on the 2008 revenue bonds.

Deferred Financing Costs

This item represents the unamortized portion of the financing costs, Cal Mortgage Premium and certification and licensing fees associated with issuing the 2008 Bonds. The issuance costs are amortized over the life of the Bonds (30 years for the tax-exempt bonds and 9 years for the taxable bonds).

Net Increases/ (Decreases) in Cash

This is the sum of all the changes in cash during the period. It includes the net cash provided by (used in) operations and the net cash from investing and financing activities combined.

Cash - Beginning of Period

This is the starting cash balance at the beginning of each fiscal year. For the remaining fiscal years, the beginning cash balance is the same as the prior year's ending cash balance.

Cash - End of Period

This is the net cash left over at the end of each fiscal year after all cash transactions have been combined with the beginning cash balance from the prior period. It becomes the Cash - Beginning of Period for the subsequent fiscal year.

Exhibit A
Forecasted Statements of Operations, Cash Flow, Balance Sheet and Financial Ratio

Institute on Aging
Historical and Forecasted Balance Sheet
As of June 30, 2008 through 2013
With Historical Years As of June 30, 2005 through 2007
(Amounts in Thousands)

	Historical			Forecasted					
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Assets:									
Current assets:									
Cash and cash equivalents	$ -	$ 199	$ 369	$ 375	$ 464	$ 597	$ 684	$ 715	$ 718
Grant and contract funds receivable	1,016	792	1,110	1,328	1,359	1,402	1,056	1,082	1,109
Patient accounts receivable, net	725	903	1,510	1,172	1,219	1,268	1,405	1,504	1,562
Pledges receivable, current	533	1,477	568	568	568	568	568	568	568
Prepaid expenses	162	171	62	70	71	74	77	81	83
Total current assets	2,436	3,542	3,619	3,513	3,681	3,909	3,790	3,950	4,040
Other Assets:									
Assets limited as to use, less current portion:									
Held by trustee:									
Working Capital Fund	-	-	-	1,350	-	-	-	-	-
Debt service reserve fund (DSRF)	-	-	-	3,019	3,019	3,019	3,019	3,019	3,019
Capitalized interest fund	-	-	-	5,859	3,874	1,889	731	-	-
Construction fund	-	-	-	26,007	8,240	-	-	-	-
Total assets limited as to use, less current	-	-	-	36,235	15,133	4,908	3,750	3,019	3,019
Plant and equipment, net:									
Land	8,752	8,752	8,752	2,161	2,161	2,161	2,161	2,161	2,161
Buildings & Leasehold Improvements	3,357	3,426	3,478	3,478	3,478	39,452	39,452	39,452	39,452
Equipment	1,927	2,215	1,168	1,318	1,468	2,618	2,768	2,918	3,068
Accumulated depreciation	(3,960)	(4,531)	(3,702)	(4,064)	(4,391)	(4,841)	(6,432)	(8,014)	(9,594)
Construction in progress	2,804	3,352	4,741	7,290	27,096	225	225	225	225
Total plant and equipment, net	12,880	13,214	14,437	10,183	29,812	39,615	38,174	36,742	35,312
Investments	4,013	4,035	4,993	5,623	9,834	11,425	14,592	16,752	18,206
Deferred financing costs - Bonds	-	-	-	3,702	3,662	3,611	3,458	3,305	3,152
Pledges receivable	298	238	702	1,000	614	364	364	364	364
Deposits	5	14	32	32	32	32	32	32	32
Bond Discount	-	-	-	315	315	315	304	294	283
Due from related parties	-	-	-	-	-	-	-	-	-
Total other assets	4,316	4,287	5,727	10,672	14,457	15,747	18,750	20,747	22,037
Total assets	$ 19,632	$ 21,043	$ 23,783	$ 60,603	$ 63,083	$ 64,179	$ 64,464	$ 64,458	$ 64,408
Liabilities and net assets:									
Current liabilities:									
Accounts payable and accrued expenses	$ 1,527	$ 1,266	$ 1,747	$ 1,595	$ 1,459	$ 1,530	$ 1,585	$ 1,663	$ 1,709
Accrued wages and benefits	1,060	1,078	1,133	1,227	1,284	1,336	1,364	1,440	1,501
Advances	1,453	1,577	1,238	875	900	925	1,116	1,199	1,224
Advance for Air Rights	1,000	1,000	2,000	-	-	-	-	-	-
Current portion of maturities:	-	-	-	-	-	-	-	-	-
Current portion of notes payable	471	591	663	-	-	-	-	-	-
Current portion of 2008 bonds	-	-	-	-	-	-	750	790	835
Total current liabilities	5,511	5,512	6,781	3,697	3,643	3,791	4,815	5,092	5,269
Long term debt:									
Notes payable	7,617	7,505	7,505	-	-	-	-	-	-
2008 bonds	-	-	-	44,955	44,955	44,955	44,205	43,415	42,580
Total long term debt	7,617	7,505	7,505	44,955	44,955	44,955	44,205	43,415	42,580
Total liabilities	13,128	13,017	14,286	48,652	48,598	48,746	49,020	48,507	47,849
Net Assets									
Unrestricted	(2,334)	1,404	2,329	4,783	7,317	8,265	8,276	8,783	9,391
Temporarily restricted	5,785	2,569	3,115	3,115	3,115	3,115	3,115	3,115	3,115
Permanently Restricted	3,053	4,053	4,053	4,053	4,053	4,053	4,053	4,053	4,053
Total Net Assets	6,504	8,026	9,497	11,951	14,485	15,433	15,444	15,951	16,559
Total liabilities and net assets	$ 19,632	$ 21,043	$ 23,783	$ 60,603	$ 63,083	$ 64,179	$ 64,464	$ 64,458	$ 64,408

Institute on Aging
Historical and Forecasted Statements of Operations
For the Years Ending June 30, 2008 through 2013
With Historical Years Ended June 30, 2005 through 2007
(Amounts in Thousands)

	Historical			Forecasted					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Revenues:									
Grants and contracts	$ 4,674	$ 3,625	$ 4,593	$ 5,879	$ 6,019	$ 6,206	$ 4,675	$ 4,792	$ 4,912
Contributions	1,672	1,676	1,188	1,444	1,499	1,556	1,597	1,659	1,724
Total public support	6,346	5,301	5,781	7,323	7,518	7,762	6,272	6,451	6,636
Investment income	129	178	205	318	487	683	882	1,030	1,129
Gain (loss) on investments - realized	-	-	-	-	-	-	-	-	-
Gain (loss) on investments - unrealized	113	146	306	(139)	-	-	-	-	-
Patient services revenue:									
Total patient services revenue	16,189	19,365	20,489	21,907	22,787	23,703	25,853	27,726	28,777
Less: deductions from revenue	(640)	(577)	(604)	(731)	(764)	(799)	(500)	(536)	(575)
Patient services revenue, net	15,549	18,788	19,885	21,176	22,023	22,904	25,353	27,190	28,202
Other revenue	280	244	205	229	233	243	228	239	251
Total other revenue and gains	16,071	19,356	20,601	21,584	22,743	23,830	26,463	28,459	29,582
Total revenue and gains	22,417	24,657	26,382	28,907	30,261	31,592	32,735	34,910	36,218
Expenses:									
Salaries	9,086	11,647	12,314	13,307	13,880	14,381	14,619	15,381	15,968
Payroll taxes and benefits	2,828	3,159	3,053	3,327	3,539	3,739	3,874	4,153	4,391
Professional fees and contract labor	5,225	3,332	4,102	5,256	5,150	5,350	5,442	5,821	6,043
Occupancy	1,422	1,546	1,713	1,754	1,796	1,829	980	1,008	1,036
Other	969	1,268	1,422	1,167	1,305	1,350	1,393	1,450	1,502
Client transportation	907	982	1,015	1,008	1,042	1,078	1,031	1,117	1,161
Supplies	720	751	911	773	800	829	832	888	924
Depreciation	305	312	318	362	326	450	1,592	1,582	1,580
Waived and special services	247	228	352	841	883	926	281	296	310
Insurance	227	279	379	383	394	406	429	442	455
Amortization	-	-	-	3	40	51	164	164	164
Interest	184	274	352	278	283	449	2,268	2,264	2,222
Legal and accounting	99	160	119	123	127	130	134	138	143
Investment management and custodial fees	47	68	72	58	59	61	61	63	65
Total expenses	22,266	24,006	26,122	28,640	29,624	31,029	33,100	34,767	35,964
Operating income	151	651	260	267	637	563	(365)	143	254
Non-operating revenue and (expense):									
Capital campaign contributions	925	1,203	1,631	2,532	2,250	750	750	750	750
Capital campaign expenses	(285)	(331)	(420)	(344)	(354)	(364)	(375)	(386)	(397)
Total Non-operating revenue and (expense)	640	872	1,211	2,188	1,896	386	375	364	353
Excess of revenues over expenses	791	1,523	1,471	2,455	2,533	949	10	507	607
Net assets released from restrictions									
Transfers to affiliates	-	-	-	-	-	-	-	-	-
Donations of plant and equipment	-	-	-	-	-	-	-	-	-
Increase in unrestricted net assets	$ 791	$ 1,523	$ 1,471	$ 2,455	$ 2,533	$ 949	$ 10	$ 507	$ 607

Institute on Aging
Historical and Forecasted Statement of Cash Flows
For the Years Ending June 30, 2008 through 2013
With Historical Years Ended June 30, 2005 through 2007
(Amounts in Thousands)

		Historical				**Forecasted**			
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Cash flows from operating activities									
Change in net assets	$ 791	$ 1,523	$ 1,471	$ 2,455	$ 2,533	$ 949	$ 10	$ 507	$ 607
Adjustments to reconcile increase in net assets to net cash provided by operating activities:									
Depreciation	319	312	318	362	326	450	1,592	1,582	1,580
Amortization	-	-	-	3	40	51	164	164	164
Equity Contribution in OACM	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities:									
Grant and contract funds receivable	(570)	224	(318)	(218)	(32)	(42)	346	(26)	(27)
Accounts receivable	(35)	(178)	(607)	338	(47)	(49)	(136)	(102)	(57)
Pledges receivable	809	(884)	444	(298)	386	250	-	-	-
Prepaid expenses and other	(23)	(9)	108	(7)	(1)	(3)	(3)	(4)	(2)
Deposits	-	(9)	(17)	-	-	-	-	-	-
Due from related parties	-	-	-	-	-	-	-	-	-
Accounts payable and accrued expenses	752	(290)	482	(153)	(135)	70	55	78	46
Accrued wages and benefits	127	18	55	93	58	52	27	77	61
Advances + Air Rights	(110)	124	661	(2,362)	25	25	191	84	25
Net cash provided by operating activities	2,060	831	2,597	213	3,153	1,753	2,246	2,360	2,397
Cash flows from investing activities									
Purchases in plant and equipment - ongoing needs	(367)	(56)	(152)	(150)	(150)	(150)	(150)	(150)	(150)
Purchases in new construction - building	(275)	(231)	(999)	(2,029)	(18,539)	(7,464)	-	-	-
Purchases in new construction - equipment	-	-	-	-	-	(1,000)	-	-	-
Pre-development of New Building (CIP)	(256)	(332)	(390)	(402)	-	-	-	-	-
Sale of Air Parcel	-	-	-	6,591	-	-	-	-	-
Purchase of investments	-	-	(3,112)	-	(4,211)	(1,591)	(3,167)	(2,160)	(1,454)
Proceeds from sales of investments	9	(22)	2,154	(630)	-	-	-	-	-
Working Capital Fund	-	-	-	(1,350)	1,350	-	-	-	-
Debt Service Reserve Fund - '08 Bond	-	-	-	(3,019)	-	-	-	-	-
Capitalized interest fund	-	-	-	(5,859)	1,985	1,985	1,158	731	-
Construction fund	-	-	-	(26,007)	17,768	8,238	-	-	-
Net, capitalized interest bonds	-	-	-	(118)	(1,267)	(1,638)	-	-	-
Net cash used in investing activities	(889)	(641)	(2,499)	(32,973)	(3,064)	(1,620)	(2,159)	(1,579)	(1,604)
Cash flows from financing activities									
Payments on long-term debt (existing)	(1,180)	(291)	(591)	(4,005)	-	-	-	-	-
Proceeds on long-term debt (new debt)	-	-	-	44,955	-	-	-	-	-
Payments on long-term debt (new debt)	-	-	-	-	-	-	-	(750)	(790)
Proceeds on line of credit	-	300	663	270	-	-	-	-	-
Repayment on line of credit	-	-	-	(933)	-	-	-	-	-
Refinance of Bank Line of Credit	-	-	-	(3,500)	-	-	-	-	-
Deferred financing costs, 2008 bonds	-	-	-	(3,706)	-	-	-	-	-
Transfers to affiliates	-	-	-	(315)	-	-	-	-	-
Change in temporarily restricted net assets	-	-	-	-	-	-	-	-	-
Change in permanently restricted net assets	-	-	-	-	-	-	-	-	-
Net cash used in financing activities	(1,180)	9	72	32,766	-	-	-	(750)	(790)
Net cash (used in) provided by continuing operations	(9)	199	170	6	89	133	87	31	3
Cash provided by discontinued operations									
Net (decrease) increase in cash and cash equivalents	(9)	199	170	6	89	133	87	31	3
Cash and cash equivalents at beginning of year	9	-	199	369	375	464	597	684	715
Cash and cash equivalents at end of year	$ -	$ 199	$ 369	$ 375	$ 464	$ 597	$ 684	$ 715	$ 718

Institute on Aging
Historical and Forecasted Financial Ratios
As of June 30, 2008 through 2013
With Historical Years As of June 30, 2005 through 2007

	Historical			Forecasted					
Description	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Days Outstanding for A/R (AR / Net Pat Service Revenue)*365	14.09	17.54	27.71	20.21	20.21	20.21	20.21	20.21	20.21
Grant Receivable (Grants Receivable / Net Grant Revenue)	0.22	0.22	0.24	0.23	0.23	0.23	0.23	0.23	0.23
Prepaid Expenses (Prepaid Expenses / Non-Salary Expenses)	0.015	0.019	0.006	0.006	0.006	0.006	0.006	0.006	0.006
Days Outstanding for A/P (AP / Non-Salary Expenses)*365	52.96	51.98	61.12	50.00	45.00	45.00	45.00	45.00	45.00
Days Outstanding for Accrued Payroll (Accrued Payroll / (Salaries + Benefits))*365	26.77	26.58	26.91	26.91	26.91	26.91	26.91	26.91	26.91
Current Ratio (Current Assets / Current Liabilities)	0.44	0.64	0.53	0.95	1.01	1.03	0.79	0.78	0.77
Equity Ratio (Net Income / Total Assets)	0.04	0.07	0.06	0.04	0.04	0.01	0.00	0.01	0.01
Operation Margin (Operating Income / Total Operating Net Revenue)	0.04	0.06	0.06	0.08	0.08	0.03	0.00	0.01	0.01
Asset to Long Term Debt Ratio (Total Assets / Total long Term Debt)	2.43	2.60	2.91	1.35	1.40	1.43	1.43	1.46	1.48
Days Cash on Hand ((Cash + Investments) / (Oper. Exp. - Deprec. - Amortiz.))*365	66.70	65.23	75.85	77.43	128.48	143.75	177.89	193.07	201.86
Debt Service Coverage (including existing debt) ((Net Income + Interest + Deprec) / Annual Principal and Interest Payments for total debt (existing debt and new Bond Issue)	0.47	2.19	2.27	2.39	2.40	1.84	2.20	1.50	1.52

505 Fourteenth Street, Fifth Floor | Oakland, CA 94612 | T 510.768.0066 | F 510.768.0044 | hfsconsultants.com

August 7, 2008

Ms. Justine Gartrell
Senior Account Manager
OSHPD - Cal-Mortgage Loan Insurance Division
300 Capital Mall, Suite 1500
Sacramento, CA 95814

RE: Institute on Aging – Sensitivity Analysis

Dear Ms. Gartrell:

HFS Consultants (HFS) has prepared the enclosed sensitivity analysis associated with the Institute on Aging (IOA) Market Study and Financial Feasibility Analysis dated February 26, 2008.

Our analysis includes updating the projected financial statements and debt service coverage calculations for the following:

- Increase in the interest rate from an average rate of 5.0 percent to an average of 5.942 percent
- Delivery date of bonds is anticipated to be September 1, 2008 with a 24-month construction period
- Reduction in the Debt Service Reserve earnings rate after the construction period from 5.0 percent to 3.0 percent.
- Revised Sources and Uses including:
    - Reduction in par amount of the bonds of $1,750,000
    - Increase in bond discount of $922,621
    - Reduction in equity contribution of $194,445
    - Decrease in project fund including contingencies of $618,767
    - Elimination of working capital in the amount of $2,000,000
    - Increase in the debt service reserve fund of $226,894
    - Reduction in capitalized interest fund of $577,804
    - Increase in financing costs of $102,611
- Reduction in the annual return on investments from 5.5 percent to 5.25 percent.

Appendix A includes the Financial Statements and Ratios associated with this revision.

All other assumptions remain the same in the Study of Market Need and Financial Feasibility Analysis dated February 26, 2008.

The sensitivity analysis does not change the conclusion contained in our report, dated February 26, 2008, that:

> "The accompanying financial projection indicates that sufficient funds could be generated to meet IOA's operating expenses and other financial requirements during the projection period."

Please contact me if you need additional information or have questions regarding the enclosed analysis.

Sincerely,

HFS CONSULTANTS

Megan Upham
Manager

cc: Mr. Ken Donnelly, Institute on Aging
Mr. Edwin Eng, Cain Brothers

APPENDIX A

HISTORICAL AND FORECASTED FINANCIAL STATEMENTS AND RATIOS

Institute on Aging
Historical and Forecasted Balance Sheet
As of June 30, 2008 through 2013
With Historical Years As of June 30, 2005 through 2007
(Amounts in Thousands)

	Historical			Forecasted					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Assets:									
Current assets:									
Cash and cash equivalents	$ -	$ 199	$ 369	$ 357	$ 350	$ 351	$ 346	$ 343	$ 339
Grant and contract funds receivable	1,016	792	1,110	1,328	1,359	1,402	1,056	1,082	1,109
Patient accounts receivable, net	725	903	1,510	1,171	1,218	1,267	1,403	1,504	1,561
Pledges receivable, current	533	1,477	568	568	568	568	568	568	568
Prepaid expenses	162	171	62	70	71	73	77	83	85
Total current assets	2,436	3,542	3,619	3,494	3,566	3,661	3,450	3,580	3,662
Other Assets:									
Assets limited as to use, less current portion:									
Held by trustee:									
Working Capital Fund	-	-	-	-	-	-	-	-	-
Debt service reserve fund (DSRF)	-	-	-	-	3,246	3,246	3,246	3,246	3,246
Capitalized interest fund	-	-	-	-	4,249	1,983	-	-	-
Construction fund	-	-	-	-	14,974	1,255	-	-	-
Total assets limited as to use, less current	-	-	-	-	22,469	6,484	3,246	3,246	3,246
Plant and equipment, net:									
Land	8,752	8,752	8,752	2,161	2,161	2,161	2,161	2,161	2,161
Buildings & Leasehold Improvements	3,357	3,426	3,478	3,478	3,478	3,478	39,985	39,985	39,985
Equipment	1,927	2,215	1,168	1,318	1,468	1,618	2,268	2,418	2,568
Accumulated depreciation	(3,960)	(4,531)	(3,702)	(4,064)	(4,391)	(4,724)	(6,014)	(7,513)	(9,011)
Construction in progress	2,804	3,352	4,741	7,154	19,366	35,368	-	-	-
Total plant and equipment, net	12,880	13,214	14,437	10,047	22,082	37,901	38,400	37,051	35,703
Investments	4,013	4,035	4,993	4,543	7,388	8,938	12,528	14,278	15,308
Deferred financing costs - Bonds	-	-	-	-	3,782	3,751	3,618	3,469	3,320
Pledges receivable	298	238	702	1,000	614	364	364	364	364
Deposits	5	14	32	32	32	32	32	32	32
Bond Discount	-	-	-	-	1,238	1,238	1,207	1,165	1,124
Due from related parties	-	-	-	-	-	-	-	-	-
Total other assets	4,316	4,287	5,727	5,575	13,054	14,323	17,749	19,308	20,148
Total assets	$ 19,632	$ 21,043	$ 23,783	$ 19,116	$ 61,171	$ 62,369	$ 62,845	$ 63,185	$ 62,759
Liabilities and net assets:									
Current liabilities:									
Accounts payable and accrued expenses	$ 1,527	$ 1,266	$ 1,747	$ 1,591	$ 1,462	$ 1,510	$ 1,574	$ 1,699	$ 1,745
Accrued wages and benefits	1,060	1,078	1,133	1,227	1,284	1,336	1,364	1,440	1,501
Advances	1,453	1,577	1,238	875	900	925	1,116	1,199	1,224
Advance for Air Rights	1,000	1,000	2,000	-	-	-	-	-	-
Current portion of maturities:	-	-	-	-	-	-	-	-	-
Current portion of notes payable	471	591	663	-	-	-	-	-	-
Current portion of 2008 bonds	-	-	-	-	-	-	-	685	-
Total current liabilities	5,511	5,512	6,781	3,693	3,646	3,771	4,054	5,023	4,470
Long term debt:									
Notes payable	7,617	7,505	7,505	3,500	-	-	-	-	-
2008 bonds	-	-	-	-	43,205	43,205	43,205	42,520	42,520
Total long term debt	7,617	7,505	7,505	3,500	43,205	43,205	43,205	42,520	42,520
Total liabilities	13,128	13,017	14,286	7,193	46,851	46,976	47,259	47,543	46,990
Net Assets									
Unrestricted	(2,334)	1,404	2,329	4,755	7,152	8,225	8,418	8,474	8,601
Temporarily restricted	5,785	2,569	3,115	3,115	3,115	3,115	3,115	3,115	3,115
Permanently Restricted	3,053	4,053	4,053	4,053	4,053	4,053	4,053	4,053	4,053
Total Net Assets	6,504	8,026	9,497	11,923	14,320	15,393	15,586	15,642	15,769
Total liabilities and net assets	$ 19,632	$ 21,043	$ 23,783	$ 19,116	$ 61,171	$ 62,369	$ 62,845	$ 63,185	$ 62,759

Institute on Aging
Historical and Forecasted Statements of Operations
For the Years Ending June 30, 2008 through 2013
With Historical Years Ended June 30, 2005 through 2007
(Amounts in Thousands)

	Historical			Forecasted					
	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues:									
Grants and contracts	$ 4,674	$ 3,625	$ 4,593	$ 5,879	$ 6,019	$ 6,206	$ 4,675	$ 4,792	$ 4,912
Contributions	1,672	1,676	1,188	1,444	1,499	1,556	1,597	1,659	1,724
Total public support	6,346	5,301	5,781	7,323	7,518	7,762	6,272	6,451	6,636
Investment income	129	178	205	264	358	511	673	813	886
Gain (loss) on investments - realized	-	-	-	-	-	-	-	-	-
Gain (loss) on investments - unrealized	113	146	306	(139)	-	-	-	-	-
Patient services revenue:									
Total patient services revenue	16,189	19,365	20,489	21,907	22,787	23,703	25,853	27,726	28,777
Less: deductions from revenue	(640)	(577)	(604)	(731)	(764)	(799)	(500)	(536)	(575)
Patient services revenue, net	15,549	18,788	19,885	21,176	22,023	22,904	25,353	27,190	28,202
Other revenue	280	244	205	229	233	243	228	239	251
Total other revenue and gains	16,071	19,356	20,601	21,530	22,614	23,658	26,254	28,242	29,339
Total revenue and gains	22,417	24,657	26,382	28,853	30,132	31,420	32,526	34,693	35,975
Expenses:									
Salaries	9,086	11,647	12,314	13,307	13,880	14,381	14,619	15,381	15,968
Payroll taxes and benefits	2,828	3,159	3,053	3,327	3,539	3,739	3,874	4,153	4,391
Professional fees and contract labor	5,225	3,332	4,102	5,256	5,150	5,350	5,442	5,821	6,043
Occupancy	1,422	1,546	1,713	1,754	1,796	1,829	980	1,008	1,036
Other	969	1,268	1,422	1,168	1,305	1,351	1,394	1,450	1,503
Client transportation	907	982	1,015	1,008	1,042	1,078	1,031	1,117	1,161
Supplies	720	751	911	773	800	829	832	888	924
Depreciation	305	312	318	362	326	333	1,290	1,499	1,497
Waived and special services	247	228	352	841	883	926	281	296	310
Insurance	227	279	379	383	394	406	429	442	455
Amortization	-	-	-	-	26	31	164	190	190
Interest	184	274	352	254	304	289	2,177	2,555	2,515
Legal and accounting	99	160	119	123	127	130	134	138	143
Investment management and custodial fees	47	68	72	58	59	61	61	63	65
Total expenses	22,266	24,006	26,122	28,614	29,631	30,733	32,708	35,001	36,201
Operating income	151	651	260	239	501	687	(182)	(308)	(226)
Non-operating revenue and (expense):									
Capital campaign contributions	925	1,203	1,631	2,532	2,250	750	750	750	750
Capital campaign expenses	(285)	(331)	(420)	(344)	(354)	(364)	(375)	(386)	(397)
Total Non-operating revenue and (expense)	640	872	1,211	2,188	1,896	386	375	364	353
Excess of revenues over expenses	791	1,523	1,471	2,427	2,397	1,073	193	56	127
Net assets released from restrictions									
Transfers to affiliates	-	-	-	-	-	-	-	-	-
Donations of plant and equipment	-	-	-	-	-	-	-	-	-
Increase in unrestricted net assets	$ 791	$ 1,523	$ 1,471	$ 2,427	$ 2,397	$ 1,073	$ 193	$ 56	$ 127

Institute on Aging
Historical and Forecasted Statement of Cash Flows
For the Years Ending June 30, 2008 through 2013
With Historical Years Ended June 30, 2005 through 2007
(Amounts in Thousands)

	Historical			Forecasted					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Cash flows from operating activities									
Change in net assets	$ 791	$ 1,523	$ 1,471	$ 2,427	$ 2,397	$ 1,073	$ 193	$ 56	$ 127
Adjustments to reconcile increase in net assets to net cash provided by operating activities:									
Depreciation	319	312	318	362	326	333	1,290	1,499	1,497
Amortization	-	-	-	-	26	31	164	190	190
Equity Contribution in OACM	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities:									
Grant and contract funds receivable	(570)	224	(318)	(218)	(32)	(42)	346	(26)	(27)
Accounts receivable	(35)	(178)	(607)	338	(46)	(49)	(137)	(102)	(56)
Pledges receivable	809	(884)	444	(298)	386	250	-	-	-
Prepaid expenses and other	(23)	(9)	108	(7)	(1)	(2)	(3)	(6)	(2)
Deposits	-	(9)	(17)	-	-	-	-	-	-
Due from related parties	-	-	-	-	-	-	-	-	-
Accounts payable and accrued expenses	752	(290)	482	(156)	(129)	48	64	125	46
Accrued wages and benefits	127	18	55	93	58	52	27	77	61
Advances + Air Rights	(110)	124	661	(2,363)	25	25	191	84	25
Net cash provided by operating activities	2,060	831	2,597	178	3,010	1,719	2,135	1,897	1,861
Cash flows from investing activities									
Purchases in plant and equipment - ongoing needs	(367)	(56)	(152)	(150)	(150)	(150)	(150)	(150)	(150)
Purchases in new construction - building	(275)	(231)	(999)	(2,011)	(10,891)	(14,046)	(812)	-	-
Purchases in new construction - equipment	-	-	-	-	-	-	(500)	-	-
Pre-development of New Building (CIP)	(256)	(332)	(390)	(402)	-	-	-	-	-
Sale of Air Parcel	-	-	-	6,591	-	-	-	-	-
Purchase of investments	-	-	(3,112)	-	(2,845)	(1,550)	(3,590)	(1,750)	(1,030)
Proceeds from sales of investments	9	(22)	2,154	450	-	-	-	-	-
Working Capital Fund	-	-	-	-	-	-	-	-	-
Debt Service Reserve Fund - '08 Bond	-	-	-	-	(3,246)	-	-	-	-
Capitalized interest fund	-	-	-	-	(4,249)	2,266	1,983	-	-
Construction fund	-	-	-	-	(14,974)	13,718	1,255	-	-
Net, capitalized interest bonds	-	-	-	-	(1,321)	(1,956)	(326)	-	-
Net cash used in investing activities	(889)	(641)	(2,499)	4,478	(37,676)	(1,718)	(2,140)	(1,900)	(1,180)
Cash flows from financing activities									
Payments on long-term debt (existing)	(1,180)	(291)	(591)	(4,005)	-	-	-	-	-
Proceeds on long-term debt (new debt)	-	-	-	-	43,205	-	-	-	-
Payments on long-term debt (new debt)	-	-	-	-	-	-	-	-	(685)
Proceeds on line of credit	-	300	663	270	-	-	-	-	-
Repayment on line of credit	-	-	-	(933)	-	-	-	-	-
Refinance of Bank Line of Credit	-	-	-	-	(3,500)	-	-	-	-
Deferred financing costs, 2008 bonds	-	-	-	-	(3,808)	-	-	-	-
Transfers to affiliates	-	-	-	-	(1,238)	-	-	-	-
Change in temporarily restricted net assets	-	-	-	-	-	-	-	-	-
Change in permanently restricted net assets	-	-	-	-	-	-	-	-	-
Net cash used in financing activities	(1,180)	9	72	(4,668)	34,659	-	-	-	(685)
Net cash (used in) provided by continuing operations	(9)	199	170	(12)	(7)	1	(5)	(3)	(4)
Cash provided by discontinued operations									
Net (decrease) increase in cash and cash equivalents	(9)	199	170	(12)	(7)	1	(5)	(3)	(4)
Cash and cash equivalents at beginning of year	9	-	199	369	357	350	351	346	343
Cash and cash equivalents at end of year	$ -	$ 199	$ 369	$ 357	$ 350	$ 351	$ 346	$ 343	$ 339

Institute on Aging
Historical and Forecasted Financial Ratios
As of June 30, 2008 through 2013
With Historical Years As of June 30, 2005 through 2007

	Historical			Forecasted					
Description	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Days Outstanding for A/R (AR / Net Pat Service Revenue)*365	14.09	17.54	27.71	20.21	20.21	20.21	20.21	20.21	20.21
Grant Receivable (Grants Receivable / Net Grant Revenue)	0.22	0.22	0.24	0.23	0.23	0.23	0.23	0.23	0.23
Prepaid Expenses (Prepaid Expenses / Non-Salary Expenses)	0.015	0.019	0.006	0.006	0.006	0.006	0.006	0.006	0.006
Days Outstanding for A/P (AP / Non-Salary Expenses)*365	52.96	51.98	61.12	50.00	45.00	45.00	45.00	45.00	45.00
Days Outstanding for Accrued Payroll (Accrued Payroll / (Salaries + Benefits))*365	26.77	26.58	26.91	26.91	26.91	26.91	26.91	26.91	26.91
Current Ratio (Current Assets / Current Liabilities)	0.44	0.64	0.53	0.95	0.98	0.97	0.85	0.71	0.82
Equity Ratio (Net Income / Total Assets)	0.04	0.07	0.06	0.13	0.04	0.02	0.00	0.00	0.00
Operation Margin (Operating Income / Total Operating Net Revenue)	0.04	0.06	0.06	0.08	0.08	0.03	0.01	0.00	0.00
Asset to Long Term Debt Ratio (Total Assets / Total long Term Debt)	2.43	2.60	2.91	5.46	1.42	1.44	1.45	1.46	1.48
Days Cash on Hand ((Cash + Investments) / (Oper. Exp. - Deprec. - Amortiz.))*365	15.96	18.20	18.51	10.95	45.94	62.94	103.01	115.79	122.62
Debt Service Coverage (including existing debt) ((Net Income + Interest + Deprec) / Annual Principal and Interest Payments for total debt (existing debt and new Bond Issue)	0.47	2.19	2.27	2.56	2.26	1.56	1.94	1.68	1.35

Institute on Aging
Historical and Forecasted Debt Service Coverage Calculation
For the Years Ended June 30, 2008 through 2013
With Historical Years As of June 30, 2005 through 2007
(Amounts in Thousands)

	Actual Years Ended June 30,			Projected Years Ending June 30,					
	2005	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
Net Income	$ 151	$ 651	$ 1,471	$ 2,427	$ 2,397	$ 1,073	$ 193	$ 56	$ 127
Plus:									
+ Depreciation	305	312	318	362	326	333	1,290	1,499	1,497
+ Amortization	-	-	-	-	26	31	164	190	190
+ Interest Expense	184	274	352	254	304	289	2,177	2,555	2,515
Total Depr, Amort & Int	488	585	671	617	657	654	3,631	4,245	4,202
+ Funded Capitalized Interest	-	-	-	-	1,883	2,265	1,133	-	-
EBIDA	639	1,237	2,142	3,043	4,937	3,992	4,957	4,300	4,329
Debt:									
Existing Prin	1,180	291	591	933	-	-	-	-	-
Existing Int	184	274	352	254	64	-	-	-	-
FY08 Prin	-	-	-	-	-	-	-	-	685
FY08 Int	-	-	-	-	2,123	2,554	2,555	2,555	2,515
Total Annual Debt	1,364	565	944	1,187	2,187	2,554	2,555	2,555	3,200
Calc'd Debt Serv Coverage	0.47	2.19	2.27	2.56	2.26	1.56	1.94	1.68	1.35

Institute on Aging
Comparison of Estimated Sources and Uses of Proceeds

	Report Dated 2/26/08	Sensitivity Dated 8/7/08	Change
Total Debt	$ 44,955,000	$ 43,205,000	$ (1,750,000)
Interest Rate	5.0%	5.9%	
Term	30 years	30 years	
Sources:			
Bond Proceeds			
Par Amount	$ 44,955,000	$ 43,205,000	$ (1,750,000)
Bond Discount	(314,957)	(1,237,578)	(922,621)
Equity Contribution	4,995,000	4,800,556	(194,445)
Total Sources of Funds	49,635,044	46,767,978	(2,867,066)
Uses of Funds:			
Project Fund	29,436,427	29,663,879	227,452
Contingency at 8% of Future Costs	2,115,080	1,268,860	(846,220)
Total Project Fund Costs	31,551,507	30,932,739	(618,767)
Working Capital	2,000,000	-	(2,000,000)
Refinance Bank line of Credit	3,500,000	3,500,000	-
Other Costs:			
Debt Service Reserve Fund	3,019,250	3,246,144	226,894
Capitalized Interest Fund, Net	5,858,580	5,280,777	(577,804)
Costs of Issuance	3,705,707	3,808,318	102,611
Total Uses of Funds	$ 49,635,044	$ 46,767,978	$ (2,867,066)

Source: Cain Brothers

APPENDIX G

DTC AND THE BOOK-ENTRY SYSTEM

The following description of the Depository Trust Company ("DTC"), the procedures and record keeping with respect to beneficial ownership interests in the Bonds, payment of principal, interest and other payments on the Bonds to DTC Participants or Beneficial Owners, confirmation and transfer of beneficial ownership interest in the Bonds and other related transactions by and between DTC, the DTC Participants and the Beneficial Owners is based solely on information provided by DTC. Accordingly, no representations can be made concerning these matters and neither the DTC Participants nor the Beneficial Owners should rely on the foregoing information with respect to such matters, but should instead confirm the same with DTC or the DTC Participants, as the case may be.

Neither the issuer of the Bonds (the "Issuer") nor the trustee, fiscal agent or paying agent appointed with respect to the Bonds (the "Agent") take any responsibility for the information contained in this Appendix.

No assurances can be given that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

1. The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the securities (the "Bonds"). The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC. If, however, the aggregate principal amount of any issue exceeds $500 million, one certificate will be issued with respect to each $500 million of principal amount and an additional certificate will be issued with respect to any remaining principal amount of such issue.

2. DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2.2 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned

subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Fixed Income Clearing Corporation, and Emerging Markets Clearing Corporation (NSCC, FICC, and EMCC, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

3. Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each 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 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

4. To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of 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 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. 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 Bonds may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners, in the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of the notices be provided directly to them.

6. Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

7. Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's

Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from Issuer or Agent on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

10. Issuer 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.

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

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

[THIS PAGE INTENTIONALLY LEFT BLANK]

ABAG FINANCE AUTHORITY FOR NONPROFIT CORPORATIONS • INSURED HEALTH FACILITY REVENUE BONDS (INSTITUTE ON AGING), SERIES 2008A AND (TAXABLE) SERIES 2008B

Printed on Recycled Paper
IMAGEMASTER 800.452.5152